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Provisional Local Government Finance Settlement 2013/14

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1. Introduction

Purpose of this Note

- 1.1 On 19 December 2012, Rt. Hon. Eric Pickles, the Secretary of State for Communities and Local Government, made a statement to the House of Commons concerning the provisional local government finance settlement for 2013/14. This briefing note highlights key issues of note, and comparative information, for local authorities.

Headline Figures

- 1.2 The Secretary of State announced that local authorities will face an average reduction in spending power of 1.7%; and that no local authority would experience a decrease of more than 8.8%. In a similar manner to the previous two years, the government's headlines focus on comparative figures concerning a local authority's "revenue spending power" – a definition which encompasses an individual authority's:

- New **Efficiency Support Grant** (see below)
- Council Tax Requirement
- Start-up funding assessment
- Specific Grants
- NHS funding for social care

- 1.3 The Secretary of State also announced:

- Local Authorities will be able to use proceeds from the disposal of assets from 2012/13 to fund equal play claims
- The Secretary of State for Health will be announcing Public Health funding allocations alongside the provisional local government finance settlement. However, it would now appear that a final decision has not been made regarding the allocations and the announcement will be delayed, possibly until the New Year.
- Local government will be exempt from the 1% reduction in funding announced in the Autumn Statement 2012 (this exemption was originally announced in the Autumn Statement by the Chancellor).
- The publication of "*50 ways to save: examples of sensible savings in local government*"; which has the stated intention of offering 'practical tips and guidance' for councils on achieving savings; this is available by [clicking here](#).
- Confirmation of the previously announced council tax freeze grant offer: i.e. an amount equivalent to a 1% increase in funding for 2013/14 and 2014/15, for a 0%

council tax increase in 2013/14; and up to a 2% increase being allowable before a referendum is required.

- An allowable £5 increase in council tax (even if it is above the 2% threshold) for Shire Districts, Police and Crime Commissioners and fire and rescue authorities whose 2012/13 council tax was in the lower quartile of their category of authority.
- Subject to consultation, the government propose that there will be no access for councillors to the Local Government Pension Scheme in England from April 2014.
- The government will pay a revenue grant (**Efficiency Support Grant**) to local authorities in 2013/14 and 2014/15 who would otherwise have seen a reduction in 'revenue spending power' of more than 8.8% in 2013/14. The grant will be offered to these authorities, providing they sign up to conditions for 2013/14 e.g. joint working. This grant will not be offered for 2014/15 to an authority if it fails to deliver on the conditions agreed upon. The authorities that are eligible for the Efficiency Support Grant are listed below:
 - Bolsover
 - Hyndburn
 - Great Yarmouth
 - Hastings
 - Pendle
 - Burnley
 - Barrow-in-Furness

2. Local Government Funding 2013/14

Background

- 2.1. The 2013/14 provisional finance settlement sees the launch of the Business Rates Retention (BRR) scheme as the principle form of local government funding. In previous years, the provisional settlement announcement provided local authorities with their expected general revenue allocations for the following financial year. For 2013/14, the provisional settlement provides authorities with a combination of provisional grant allocations and their respective starting points within the BRR scheme.
- 2.2. The provisional figures are expected to be confirmed in late January/early February 2013 (within the final settlement announcement).
- 2.3. Due to the introduction of BRR, there are a number of new terms and principles introduced into local government funding. In order to assist local authorities in understanding these terms, an overview of BRR (**Appendix A**) has been provided, alongside the DCLG's glossary (**Appendix B**). In summary:
- An authority's **Formula Funding** can be compared against the **2012/13 Formula Grant Figure** (after it is adjusted to take into account specific grant transfers), to determine the change in funding levels between years.
 - The **Formula Funding** amount for a local authority, plus any further specific grant transfers (such as council tax freeze grant) will provide a total funding amount; this is known as the **Start-up Funding Assessment**.
 - The **Start-up Funding Assessment** for an authority is split between resources received **Revenue Support Grant (RSG)** and a Business Rates Retention (**Baseline Need**) amount.
 - It is the **Baseline Need** amount that is funded through retained business rates and the **RSG** amount that will be guaranteed.
 - All factors being equal, if local authorities collect business rates in line with previous levels, after the required adjustments are made, the retained amount should be comparable with the **Baseline Need** amount. However, there will be winners and losers from the methodology used i.e. the government has made an assumption regarding the amount of business rates that authorities will be able to collect (this is known as the **NDR Baseline**). This assumption may be too high or too low for individual authorities, thereby causing authorities to gain or lose.
 - A key determinant of local government funding going forward will be actual business rates collected i.e. it is this figure that will determine if authorities receive funding comparable to the **Baseline Need** amount (and therefore the Start-up funding assessment), or a higher/lower amount. Local authorities therefore need to factor in

local business rates income forecasts, alongside the provisional settlement figures, in order to estimate local resource levels for 2013/14 and beyond.

2013/14 Formula Funding

- 2.4. The 2013/14 formula funding figure for authorities uses the four block model approach (i.e. as in 2012/13). However, the 2013/14 figures have been updated for data and methodology changes. A summary of these changes are provided below:

Data

- 2.5. Where possible, all existing datasets have been updated, 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.
- 2.6. On 21 November 2012, 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.

Technical changes to calculating formula funding

- 2.7. There were three technical changes made for the formulae, these were:
- 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; and
 - Restoring the level of the Relative Resource Amount in 2013/14 to its 2010/11 level (-32.4%), making a compensating adjustment to the level of the Central Allocation (49.4%).

National Control Totals

- 2.8. In July 2012, DCLG provided national control totals for 2013/14 and 2014/15. These are set out in Appendix C. In October 2012, DCLG provided start-up funding assessments for local government using the previously published control totals. The table below provides a summary of these figures (reconciling back to the previously published figures).

Table 2.1 Start-up Funding Assessments (October 2012)

Start-up Funding Assessment	2013/14
	£m
Education Authorities	22,510
Single Purpose Fire	798
Shire Districts	1,232
GLA (Fire and non-Fire)	1,255
Total	25,795
Less:	
Police Council Tax Support	119
New Homes Bonus*	1,155
Reconciliation to DCLG Figures	24,759

*The previous CLG total funding of £24,759m assumed a reduction in funding of £1,655m for New Homes Bonus. The October start-up funding assessment lowered this to £500m for 2013/14, thereby increasing the start-up funding assessments by £1,155m.

- 2.9. The table below provides a summary of the changes between the previous start-up funding assessment and today's announcement.

Table 2.2 Local Government Start-up Funding Assessment 2013/14

Element	2013/14 (£m)		
	Previously announced	Actual	Variance
Start-up Funding Assessment	25,795	26,073	278
<u>Variations</u>			
New Homes Bonus	(500)	(506)	(6)
Safety Net	(252)	(25)	227
Capitalisation	(100)	(100)	0
Academies	(1,218)	(1,038)	180
Council Tax Support	3,268	3,295	27
GLA Transport Grant	920	758	(162)
EIG	1,726	1,708	(18)
Learning Disability and Public Health	1,408	1,412	4
London Bus Service Operators Funding	0	44	44
New development deals	0	(15)	(15)
Ordnance Survey	0	(20)	(20)

- 2.10. The table shows that the amount of funding within the **Start-up Funding Assessment** has increased, due to a lower amount than previously published being top-sliced for the Safety Net, changes to the amounts transferred in and new transfers in function; of particular note is the lower than expected reduction for the Academies transfer.
- 2.11. The **Start-up Funding Assessment** amount from the table above is used to determine **Baseline Need** and **RSG** allocations for local government. An explanation of key figures from the table above is provided below:

Safety Net

- 2.12. The government has included a Safety Net within the BRR system. This will guarantee individual authorities a set level of resources, irrespective of the actual level of business rates collected. Whilst it is anticipated that this will be self-funding within the system (through the use of a levy on NDR growth) the government is planning to top-slice resources from local government funding to guarantee sufficient funding for the safety net. The top slice of £25m has been reduced from the original top slice of £252m within the July Technical Consultation paper.

Capitalisation

- 2.13. The government previously announced that it intended to top-slice £100m for capitalisation i.e. the means by which government, exceptionally, permits local authorities to treat revenue expenditure as capital. This amount remains unchanged.

New Homes Bonus

- 2.14. As indicated in the CLG's Policy Statement on 21 November 2012, the government has decided to use the alternative option put forward for removing New Homes Bonus funding i.e. by reducing Revenue Support Grant by £500m in 2013/14 and £800m in 2014/15 for New Homes Bonus, instead of £1,655m for both years. The deduction of £506m reflects £6m that was owed from 2012/13 by the fund (i.e. not enough was taken from Formula Grant in 2012/13).

Local Authority Refunds

- 2.15. The government previously announced its intention to refund amounts that are not used for New Homes Bonus, the Safety Net and Capitalisation to local government, in proportionate share to the **Start-up Funding Assessment**. The amounts that will be due through refunds will not be known until further information is available i.e. the final New Homes Bonus allocations, the forecast use of the safety net and the number of applications for capitalisation.

3. The Provisional Settlement 2013/14 – Your Authority

- 3.1. It is important that authorities understand what each of the funding figures published in the provisional settlement represent. This is often not as straightforward as it would first appear, due to changes in local authority responsibilities and funding arrangements between years. Due to the introduction of BRR, this provisional settlement brings with it further complexity. A brief overview of the respective figures discussed in this section is provided below.
- 3.2. For 2013/14, each authority will receive a **Formula Funding** figure. This figure is comparable with the 2012/13 Formula Grant figure, after allowing for transfers in function (see **Formula Grant Comparison** below).
- 3.3. In addition to the Formula Funding figure, local authorities will receive a **Start-up Funding Assessment**. This figure is the sum of the Formula Funding figure and a number of funding streams that were previously provided through Specific Grants (see **Start-up Funding Assessment** below).
- 3.4. Whilst previously, local authorities received this allocated funding through Formula Grant, it is now split between Revenue Support Grant and the BRR system. The provisional figures for your authority are explained below (see **Business Rates Retention** below).

2012/13 Formula Grant Comparison

- 3.5. As part of the 2013/14 finance settlement, there will be changes to responsibilities included within general funding. As a result, comparisons against your authority's 2012/13 'cash' Formula Grant figure could be misleading. In order to aid comparison, DCLG will produce an adjusted Formula Grant 2012/13 that reflects the transfers highlighted above. Once these figures are published, these will be provided in an updated version of this note alongside relevant comparative information.

Start-up Funding Assessment

- 3.6. **Appendix E Table 4** provides a breakdown of the specific grants currently included within your authority's **Start-up Funding Assessment**. These are based on the following national transfers.

Table 3.1 Specific Grant movements in 2013/14

	2013/14 £m
2011/12 Council Tax Freeze Grant	593.4
Council Tax Support	3,295.0
Early Intervention Grant	1,708.9
GLA General Grant	45.7
GLA Transport Grant	758.5
London Bus Services Operators Grant	44.3
Homelessness Prevention Grant	80.0
Lead Local Flood Authority	21.0
Learning Disability and Public Health Grant	1,412.7

3.7. **Appendix E Table 5** provides an analysis of your authority's **Start-up Funding Assessment** across the four-block model, which includes the specific grants that have been rolled in.

Business Rates Retention

3.8. The key figures for your authority regarding Business Rates Retention are shown as follows:

- **Appendix E Table 6:** A breakdown of your authority's Start-up funding assessment (between RSG and Baseline Need)
- **Appendix E Table 7:** The determination of your top-up/tariff amount, using the Baseline Need figure from Table 6 and your NDR Baseline.
- **Appendix E Table 8:** The levy rate that your authority will be expected to pay growth on for business rate income above the NDR Baseline in 2013/14.
- **Appendix E Table 9:** The Safety Net Threshold for your authority and the percentage reduction in NDR income that would be required in order for your authority to reach the Safety Net (based upon current NDR income at NDR Baseline levels).

3.9. Due to the variable nature of the BRR element of local authority funding, the provisional settlement no longer provides the absolute funding level for authorities. Similarly, the government's NDR Baseline for your authority is only based on an adjusted average income figure, and therefore may not be representative of your actual starting point for 2013/14. In order to illustrate the potential loss/gain in income, relative to your Start-up Funding Assessment, that Business Rates could have, a sensitivity analysis is shown in **Appendix E Table 10 and Figure 3**.

4. The Provisional Settlement 2013/14 – Comparative Figures

Nationally

- 4.1. The table below shows the changes to the overall level of local government funding between 2012/13 and 2013/14. This table does not take into account changes in funding as a result of the funding changes between years from the specific grants included within the **Start-up Funding Assessment** (i.e. those in Table 3.1 above).

Table 4.1 – Overall Level of Local Government Funding

	£m
2012/13 Adjusted funding	27,169
2013/14 Funding	26,101
£m change on previous year	(1,068)
% change on previous year	-3.9%

Regionally / By Type

- 4.2. The 2013/14 change in local government funding (using adjusted 2012/13 figures) is currently not available. Once published by DCLG, comparative charts will be added below.

5. Damping Arrangements

5.1. There are two elements of damping within the new local government funding system; these being:

- Floors and scaling (through the Four Block Model)
- Safety Net and Levy (through the Business Rates Retention scheme)

Floors and Scaling

5.2. The cost of guaranteeing the minimum increase in grant continues to be paid for by scaling back the increase in grant for authorities above the floor. As in previous years, the floor damping system is self-financing within each group of authorities i.e. authorities in one group will not cross-subsidise the floor for authorities in another group.

5.3. In line with previous years, there are four floor levels for both the upper and lower tier authorities. For 2013/14, there are also three bands for fire authorities.

5.4. The government continues to place individual local authorities into one of the relevant four floor levels (three for fire authorities), based on an overall ranking determined by grant dependency, which is defined as the proportion of the 2010/11 budget requirement that was funded through the 2010/11 Formula Grant (the year used has not changed); and ensuring that there is an equal number of authorities in each of the four bands. The basic mechanism for floor and scaling arrangements for police authorities remains unchanged from previous years.

5.5. The table below shows the grant floors and scaling that have been announced as part of the 2013/14 finance settlement. Table 5.1 compares the 2013/14 figures against the actual 2012/13 equivalents.

Table 5.1 – Comparing the 2013/14 Floors and Scaling Factors against the 2012/13 figures

	2012/13		2013/14	
	Floor	Floor	Floor	Scaling
Education / PSS authorities	(7.4%) (8.4%) (9.4%) (10.4%)	(71.7%)	(2.7%) (4.7%) (6.7%) (8.7%)	(72.3%)
Police Authorities	(6.7%)	(99.98%)	(1.6%)	(100.0%)
Fire & Rescue Authorities	(3.4%)	(32.1%)	(8.7%) (10.2%) (11.7%)	(32.3%)
Shire Districts	(11.2%) (12.2%) (13.2%) (14.2%)	(75.1%)	(5.4%) (7.4%) (9.4%) (11.4%)	(75.7%)

- 5.6. The floors and scaling information is currently not available at an authority level. Once published by DCLG, comparative charts will be added below.

Safety Net and Levy

- 5.7. In order to limit individual local authorities' losses/gains from the BRR funding element, a safety net and levy have also been included within the new funding arrangements. These are explained below.

Safety net

- 5.8. The government proposed that a baseline safety net would be introduced. This is triggered if an authority sees its income (from the business rates element of funding) in any year decline by more than a set percentage below its baseline funding level. The intention is that the baseline will increase by RPI each year, so that the level of protection offered by the safety net remains constant over time.
- 5.9. The government has now outlined its intentions in relation to the safety net level. It proposes to set the **safety net threshold of -7.5%** below spending baseline.

The levy

- 5.10. There will be no cap on the amount of resources that an authority can receive through the scheme. However, the scheme will include a levy on additional receipts due to NDR growth.
- 5.11. The government previously outlined its intentions in relation to the levy rate level. It proposes to set a proportional levy ratio of 1:1 i.e. for every 1% increase in business rates base, an authority would see no more than a corresponding 1% increase in income, as measured against its "Baseline Need".
- 5.12. For top up authorities (where the NDR baseline is less than the Needs Baseline) this will mean that no levy is payable. For tariff authorities, the rate of the levy will be determined by the following formulae:

$$= 1 \text{ minus (Baseline Need/NDR Baseline)}$$

- 5.13. However, the maximum levy rate for an authority is 50 pence in the pound.
- 5.14. The levy rate for your authority is shown in **Appendix E Table 8**.
- 5.15. The government proposes that levy and safety net calculations will be carried out after the end of each financial year. Therefore, the associated payments (i.e. to government via the levy or to local authorities through the safety net), will be on the basis of final outturn data. This approach has been taken to avoid the need for multiple calculations to be carried out – first using forecast data, and then reconciling those forecast calculations against the outturn position.

6. Specific Grants

- 6.1. A list of the national control totals for specific grants published today are set out in **Appendix D**.

7. Council Tax Increases

- 7.1. A written statement was provided by the Parliamentary Under Secretary of State for Communities and Local Government (Brandon Lewis). In this statement, he outlined how the level of council tax freeze grant would be calculated, the principles to be applied to calculate 'excessiveness' in the increase in council tax for 2013/14 and the applicability of these announcements to local precepting authorities.

- 7.2. The availability of council tax freeze grant for 2013/14 was announced on 8 October 2012. Further details of the level of grant that will be available and how it will be paid have now been provided.

- Those Authorities and Police and Crime Commissioners who do not increase their basic amount of council tax will receive a grant equivalent to 1% of the average Band D council tax for 2012/13, multiplied by its council tax base for 2013/14, adjusted to exclude the reductions given to those receiving council tax support.
- The council tax freeze grant will be provided for both 2013/14 and 2014/15 and be paid in 10 instalments in each financial year under section 31 of the Local Government Act 2003.

- 7.3. Further information has been published about the principles of 'excessiveness' for council tax increases in 2013/14 and how these will be calculated.

- The Secretary of State has determined that for those Authorities who increase their relevant basic amount of council tax in 2013/14 by more than 2%, their local electorate will have the opportunity to approve or veto the increase in a binding referendum.
- There will be an exception made for those shire districts, Police and Crime Commissioners and fire and rescue authorities whose council tax in 2012/13 was in the lower quartile of their category of authority. In the case of these authorities, a referendum must only be held where the authority increases its relevant basic amount of council tax for 2013/14 by more than 2%, and there is a cash increase that is more than £5 in the relevant basic amount.
- The Secretary of State is also consulting on Alternative Notional Amount figures in respect of 2012/13, which a number of local authorities must use when determining whether the increase in their relevant basic amount of council tax in 2013/14 is excessive.

- 7.4. Local precepting authorities will not be eligible for the council tax freeze grant, nor will principles for an excessive increase be applied by the Secretary of State for 2013/14. The Secretary of State has indicated that he will revisit this issue for 2014/15, based on experience of the level of council tax increase in 2013/14.

8. Next Steps

Responding to the Provisional Settlement

- 8.1. The deadline for written responses to the provisional settlement 2013/14 is 5pm on Tuesday 15 January 2013. Responses can be:

Emailed to: settlement.consult@communities.gsi.gov.uk

Posted to:

Mr Andrew Lock
Zone 5/J2
Eland House
Bressenden Place
London SW1E 5DU

Faxed to: 0303 444 3294

LG Futures' Support

- 8.2. LG Futures are able to
- Provide support to local authorities regarding the implications of the settlement locally;
 - Provide further analysis of the figures published;
 - Provide advice regarding the implications of the Business Rates Retention Scheme;
 - Support local authorities in responding to the consultation and putting forward their case.
- 8.3. For further information, please contact Lee Geraghty at lee.geraghty@lgfutures.co.uk or by telephoning 07738 000368.

Appendix A: Business Rates Retention – An Overview

Background

The inclusion of Business Rates Retention within the 2013/14 Provisional Settlement is the culmination of a process that began in July 2011 i.e.

- DCLG launched its original business rates retention consultation in July 2011.
- DCLG's response to the consultation was published on 19 December 2011, with this response setting out the proposals for the final design of the scheme.
- On 17 May 2012, DCLG published five additional papers relating to the proposed Business Rates Retention Scheme.
- On 17 July 2012, DCLG published the paper, "Business Rates Retention – Technical Consultation". This paper released further information in relation to how the proposed business rates retention scheme will operate. The consultation ended on 24 September 2012.

How the new system will work

Under the Business Rates Retention element of local government funding, the provisional settlement figures published today (even when confirmed at final settlement) will no longer provide guaranteed funding levels, but rather the starting point for authorities within the scheme. Ultimately, the level of business rates collected by authorities in 2013/14 will determine the funding received for this element of their funding.

The key funding principles are explained below:

Under the proposed system, a **start-up funding assessment** is determined for each local authority. This is determined in the same way as Formula Grant was determined previously i.e. using the four block model to determine a level of need and then take into account changes in responsibility (specific grants moving in and out of general grant). Section 3 of this note sets out the changes to the four block model for 2013/14 and the movements in specific grants.

The **start-up funding assessment** is then split between **Revenue Support Grant (RSG)** and Business Rates Retention (expressed as **Baseline Need**). The level of RSG is guaranteed throughout the year, whilst the Baseline Need element is not.

Start-up funding allocation = RSG plus Baseline Need

To fund the **Baseline Need** element, local authorities each have an expected level of NDR that is to be collected (NDR Baseline). The methodology for these figures was previously outlined in the September 2012 Consultation Paper and the provisional figures were announced today (**NDR Baseline**). Due to differences between **Baseline Need** and the level of business rates collected by individual authorities, there is a further adjustment required.

For authorities with a **Baseline Need** that is higher than their **NDR Baseline**, a **Top Up** grant is required (this is also guaranteed). Whereas, for authorities with a baseline need that is lower than their **NDR Baseline**, a **Tariff** is paid to central government i.e.

$$\text{Baseline Need} = \text{NDR Baseline plus Top Up OR less Tariff}$$

Those authorities that see a higher level of NDR income, compared to their **NDR Baseline**, should be rewarded through the scheme, as they will be able to retain an element of the associated increased NDR revenues. However, authorities that have a lower level of NDR income will see decline in their business rates taxbase and relative reductions in resources. The new scheme also has a damping mechanism in place to limit individual gains/losses. The system uses a Safety Net (to limit losses) which will be funded through a levy (on disproportionate gains). The Safety Net and Levy system is explained below.

If authorities were to collect business rates at their NDR Baseline amount, the level of resources that they would receive (through NDR income and RSG) will be at their start-up funding assessment (i.e. they have neither lost nor gained from the business rates retention scheme).

The figures published within the provisional settlement provide authorities with:

Start-up funding assessment – The funding assessment of the authority (this figure is, however, only a starting point for the new funding arrangements and it is highly unlikely that authorities will end up actually receiving this level of funding)

Revenue Support Grant – The element of funding for authorities that is guaranteed.

Baseline Need – The element of funding that authorities are expected to receive through the business rates retention scheme (only indicative – the actual amount received will be dependent on actual NDR income for 2013/14).

NDR Baseline – The expected level of NDR income that an authority should be able to raise (this amount is only a proportion of the total NDR income of an authority). This is based on authorities' proportionate share of the national business rates aggregate. The proportionate share is determined by a two-year NDR income average (2010/11 to 2011/12). The business rates aggregate is determined by forecast NDR income for 2012/13, adjusted to take into account the increase to the multiplier, appeals, change in the national rateable value since December 2011 and a forecast change in the rateable value to September 2013.

Top Up/Tariff amount – This is the set amount to be paid (Tariff) or received (Top Up) by an authority in order to equalise NDR revenues between local authorities.

Levy and Safety Net

The Levy

The government has chosen to apply a proportional levy within the system. Under the proportional levy, each local authority will be assigned an individual levy rate.

There are three key variables in determining the amount to be paid through the levy by an individual local authority. These are: the ratio of the proportional levy, the ratio of NDR Baseline to Baseline Funding Level and the level of NDR income.

(i) The ratio of the proportional levy

This will limit the amount that an individual authority can gain in cash terms for any given level of NDR growth. This has been set at 1:1, meaning that a 1% increase in NDR growth will translate into up to a 1% increase in retained business rates. The actual rate of the levy for individual authorities will therefore be set at a level that limits the growth in cash resources to a set percentage of their respective Baseline Funding Level. However, as announced within the Policy Statement, there is an upper limit on the Levy of 50 pence in the pound.

(ii) The ratio of the NDR Baseline to Baseline Funding Level

Whilst the “ratio of the levy” sets the maximum amount that an authority can gain in cash terms for any given level of NDR growth, the ratio of NDR Baseline to Baseline Funding Level sets the rate of the levy for an individual authority (or pool of authorities). The higher an authority’s NDR Baseline to Baseline Funding Level, the higher the rate of the resulting levy.

It is important to note that, with a 1:1 ratio (i.e. 1% increase in NDR growth can lead to up to a 1% increase in retained income), all top up authorities (where the NDR Baseline is lower than the Baseline Funding Level), do not have to pay a levy.

(iii) The level of NDR Income

The final element of the levy calculation is determined by the level of NDR income for an authority. Only local authorities that have growth in their NDR income are required to pay the levy. It is important to note that growth in NDR income is based on CLG’s determination of authorities’ NDR baselines i.e. a levy will only be due if NDR income is higher than the amount that CLG has determined it should be. This gives rise to a number of different scenarios where actual growth may/may not result in levy payments i.e.

- NDR baseline (set by CLG) is higher than actual NDR income – until NDR income effectively catches up with this deficit, no levy is due
- NDR baseline (set by CLG) is lower than actual NDR income – a levy will be due on NDR income above the baseline
- NDR baseline (set by CLG) has been set at actual NDR income levels – a levy will be due only if the authority achieves actual growth in NDR income

It is also important to note that no levy is due on income increases due to increases to the multiplier.

Safety Net

The Safety Net within the Business Rates Retention system will see no authority see income fall by more than a set percentage of their original baseline funding level (and this level would be increased by RPI every year). The government have now announced that a Safety Net percentage of -7.5%.

The government previously announced that £252m would be held back to support the Safety Net (i.e. in case the levy did not raise sufficient resources to fully fund Safety Net payments). Within the Policy Statement, the government indicated that this figure could be reduced (to be announced at the provisional settlement). The government also intends to announce, based on NDR income estimates, how much of the £250m (or equivalent figure) is not required prior to the start of each financial year. This amount will then be returned to local government in the early part of the financial year.

The government announced within the Provisional Settlement that the deduction for the Safety Net will be reduced to £25m for 2013/14.

Business Rates Income – how it will be split

The Central Share

The original consultation stated that the business rates retention scheme would operate within the original Spending Review 2010 (SR10) control totals. In order to achieve this, the government was intending to take back the difference between the (higher) forecast NDR receipts and the control totals. To do this, the government would “set aside” a share of forecast national business rate income. This set aside amount is now known as the central share.

The government has indicated that it intends to set the central share at 50%. This percentage will be fixed until any reset of the system i.e. re-assessing individual authorities’ baseline funding levels, potentially on the basis of a different assessment of need.

The creation of a 50% central share will mean that the amount that local authorities are able to retain in business rates (i.e. the remaining 50%) will be lower than the SR10 amounts for 2013/14 and 2014/15. The intention is, therefore, for government to provide the remaining Spending Review allocation for local government through Revenue Support Grant (RSG). In effect, this arrangement extends what was going to be the 2013/14 adjustment grant, with grants for both the remaining SR10 years.

By reducing the amount of funding that local authorities are receiving through the scheme and creating a separate funding stream (i.e. RSG), this does, however, provide CLG with greater flexibility to reduce local government funding.

Under the business rates retention scheme, local government (as a sector) will retain 50% of any NDR growth (or decline) achieved locally.

Major precepting authorities

Each billing authority's business rates will be further split between the billing authority and any relevant major precepting authorities in its area, in order to produce, for every authority, an individual authority business rates baseline. The split will be undertaken on the basis of the proposed major precepting authority shares:

Two-tier areas – shire counties with fire – The previously announced split of 80% district and 20% county is still planned.

Single purpose fire and rescue authorities – As previously indicated, government proposes to include single purpose fire and rescue authorities within the business rates retention scheme. The proposal is that single purpose fire and rescue authorities should receive a **2%** share of the local share of the business rates. This share will ensure that each single purpose fire and rescue authority will be a **top-up** authority.

Two-tier areas – shire counties without fire – The same split as those authorities with fire will apply (i.e. the district receiving 80%); however, the county council share will be reduced by the percentage share that will be paid to single purpose fire authorities e.g. if this is set at the proposed 2% figure, the split would be District 80%, County 18% and Single Purpose Fire 2%.

London – The previously announced split of 60% London Boroughs and 40% GLA is still planned.

Police – Police authorities will remain outside the business rate retention scheme, in recognition of the fact that they have limited levers to influence growth.

Appendix B: Glossary

Extract from CLG glossary at: <http://www.local.odpm.gov.uk/finance/1314/condoc.pdf>

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%. 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% 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% increase in business rates income produces a corresponding 1% in 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%. 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 updated 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% below their baseline funding level. The baseline funding levels are updated 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% 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.

Appendix C: Control Total Reconciliation (July 2012)

Element	2013/14				2014/15			
	Police	Fire	Other	Total	Police	Fire	Other	Total
SR	3,093	953	19,150	23,196	3,051	909	17,896	21,856
Autumn Statement and New Development Deals	-24	-5	-231	-260	-65	-9	-442	-516
Fire Grants		-42	-7	-50		-43	-8	-50
Neighbourhood Planning			-15	-15			-20	-20
Capitalisation and Safety Net Support (Fire)		-7		-7		-7		-7
New Homes Bonus			-1,655	-1,655			-1,655	-1,655
Capitalisation and Safety Net Support (LAs)			-345	-345			-345	-345
"Formula Grant"	3,069	899	16,897	20,865	2,986	850	15,426	19,263
Central Education Services currently within LACSEG				-1,218				-1,193
Council Tax Freeze Grant				593				593
Council Tax Support				3,387				3,383
Early Intervention Grant				1,726				1,633
GLA General Grant				46				44
GLA Transport Grant				920				771
Homelessness Prevention				80				80
Lead Local Flood Authorities				21				21
Learning Disability and Public Health				1,408				1,439
Police				-3,069				-2,986
TOTAL				24,759				23,046

Appendix D: National Specific Grant Allocations 2013/14

This is the **latest** information on grants within Aggregate External Finance (AEF). Figures are subject to change. Grants labelled "(RF)" are ring-fenced for 2013-14.

	£m 2012-13 Unadjusted ¹	£m 2012-13 Updates ²	£m 2012-13 Adjustments ³	£m 2012-13 Adjusted ³	£m 2013-14 Latest ⁴
Education					
(RF) Dedicated Schools Grant ^{5, 5a}	36,921.0	-66.0	0.0	36,855.0	37,959.5
(RF) Pupil Premium Grant ⁵	1,250.0	0.0	0.0	1,250.0	1,875.0
KS2 Monitoring and Moderation	0.0	0.0	2.1	2.1	2.7
Phonics Screening Check	0.0	0.0	0.1	0.1	0.1
Total Education	38,171.0	-66.0	2.2	38,107.2	39,837.3
Children's Services					
Extended Rights to Free Travel ⁶	47.2	0.0	-47.2	0.0	0.0
(RF) Adoption Improvement Grant	0.0	8.0	-8.0	0.0	0.0
Youth Contract: Support for 16-17 year olds who are not in Education, Employment or Training: Core Cities Raising the Participation Age	0.0	3.0	0.0	3.0	2.5
Locally-Led Delivery Project	0.0	3.3	-3.3	0.0	0.0
Total Children's Services	47.2	14.3	-58.5	3.0	2.5
Adult's PSS					
Warm Homes, Healthy People	0.0	20.0	-20.0	0.0	0.0
(RF) Public Health Grant ⁶	0.0	0.0	0.0	0.0	0.0
Local Reform and Community Voices	0.0	0.0	40.7	40.7	42.1
Total Adult's PSS	0.0	20.0	20.7	40.7	42.1
Fire					
Fire Revenue Grant ⁸	34.0	11.2	0.0	45.3	38.6
Interoperability grant	0.0	1.0	-1.0	0.0	0.0
Total Fire	34.0	12.2	-1.0	45.3	38.6

	£m 2012-13 Unadjusted ¹	£m 2012-13 Updates ²	£m 2012-13 Adjustments ³	£m 2012-13 Adjusted ³	£m 2013-14 Latest ⁴
Environmental, Protective and Cultural Services (EPCS)					
Housing and Council Tax Benefit Subsidy Admin Grant	439.3	0.0	-439.3	0.0	0.0
Housing Benefit Reform Transitional Funding	0.0	13.8	1.2	15.0	15.0
Housing Benefit Subsidy Admin Grant	0.0	0.0	439.3	439.3	402.3
Social Fund set-up funding	0.0	1.4	-1.4	0.0	0.0
Social Fund administrative funding	0.0	0.0	32.8	32.8	30.5
New Homes Bonus	431.9	0.0	0.0	431.9	661.4
New Homes Bonus Adjustment	0.0	0.0	318.1	318.1	88.6
Commons Pioneer Authorities	0.2	-0.1	0.0	0.0	0.0
Household Reward & Recognition Fund for Recycling and Reuse	0.2	0.7	0.0	0.9	0.5
SuDS Maintenance Costs	3.0	-3.0	0.0	0.0	0.0
Isles of Scilly Waste	0.3	0.2	0.0	0.5	4.0
Inshore Fisheries Conservation Authorities	3.0	0.0	0.0	3.0	3.0
Lead Local Flood Authorities	36.0	0.0	-21.0	15.0	15.0
iESE Waste Efficiency	0.0	0.9	0.0	0.9	0.8
(RF) Right to Control Trailblazers ⁶	0.5	0.0	-0.5	0.0	0.0
NEXUS (Tyne and Wear Metro)	23.1	0.0	0.0	23.1	22.7
Local Sustainable Transport Fund	100.0	19.0	0.0	119.0	83.5
Neighbourhood Planning Front Runners (Open Source Planning)	10.0	0.0	0.0	10.0	15.0
Community Safety Fund	0.0	28.8	-28.8	0.0	0.0
Ending Gang and Youth Violence	0.0	9.6	-9.6	0.0	0.0
Coastal Communities Fund	0.0	18.2	0.0	18.2	21.7
Digital Partners Programme	0.0	0.5	0.0	0.5	0.5
LRF Climate Resilience Competition	0.0	0.1	-0.1	0.0	0.0
Weekly Collection Support Scheme ⁷	0.0	51.8	0.0	51.8	112.2
Cities Climate Adaptation Competition	0.0	0.1	0.0	0.1	0.0
Total EPCS	1,047.4	141.9	290.6	1,480.0	1,476.6
Revenue Spend on Capital					
PFI ⁹	1,017.9	203.5	-407.4	814.0	855.0

	£m 2012-13 Unadjusted ¹	£m 2012-13 Updates ²	£m 2012-13 Adjustments ³	£m 2012-13 Adjusted ³	£m 2013-14 Latest ⁴
Cross Service Grants					
Housing Growth & Housing Market Renewal Transitional Fund	2.0	0.0	-2.0	0.0	0.0
Transition Grant	20.0	0.0	-20.0	0.0	0.0
Efficiencies Challenge Fund	0.0	0.0	20.0	20.0	8.7
(RF) Mobility Demonstration Projects	0.5	0.0	-0.5	0.0	0.0
Gurkha support	1.0	0.0	-1.0	0.0	0.0
Portas Pilots	0.0	2.3	-2.3	0.0	0.0
Special Interest Group EDL	0.0	0.2	-0.2	0.0	0.0
Alcohol Fund for Problem Drinking	0.0	0.5	0.0	0.5	0.5
Temporary Deferment of Business Rates	0.0	1.1	-1.1	0.0	0.0
Community Right to Challenge	0.0	3.0	0.0	3.0	3.0
Community Right to Bid	0.0	1.6	0.0	1.6	2.6
Housing Management grant	0.0	0.0	8.8	8.8	7.8
Rural Growth Network Pilot	0.0	7.5	-7.5	0.0	0.0
Town Team Partners	0.0	4.0	-4.0	0.0	0.0
Troubled Families (Attachment Fee) ⁶	0.0	0.1	-0.1	0.0	0.0
Troubled Families (Co-ordinators) ⁶	0.0	0.0	0.0	0.0	0.0
Local Enterprise Partnerships Core Funding	0.0	4.9	0.0	4.9	9.8
Regional Growth Fund (Revenue) ¹⁰	0.0	1.2	0.0	1.2	9.0
Whole Place Community Budget	0.0	4.8	-4.8	0.0	0.0
Council Tax Freeze Grant 2013-14 ¹¹	0.0	0.0	675.9	675.9	265.1
Council Tax Support New Burdens Funding	0.0	33.5	0.0	33.5	34.8
Total Cross Service Grants	23.5	64.7	661.3	749.5	341.2
Other General Grants					
GLA LTGDC	0.0	1.1	-1.1	0.0	0.0
TOTAL SPECIFIC AND GENERAL GRANTS	40,341.1	391.7	506.8	41,239.6	42,593.2

1. As published at the time of the 2012-13 settlement. Please note grants rolled into the local share and police funding fall outside this table.

2. Updates are changes to figures published at the previous settlement.

3. Adjustments have been made so that like-for-like year-on-year comparisons between 2012-13 and 2013-14 can be made.

4. Latest known position as at publication of table and is subject to change.

5. This includes funding that goes direct to academies as well as funding for local authority maintained schools.

- 5a. These figures are not comparable due to the 2013-14 figures including new monies such as the 2-year old funding entitlement.
6. 2013-14 allocations still to be announced.
7. This grant includes capital elements which cannot be split out.
8. This grant is not comparable between years. The only elements that are, are the New Dimension and FireLink elements.
9. 2013-14 figures currently include PFI revenue for DCLG and DfE projects only.
10. Grants awarded to LEAs have been excluded from these figures.
11. This includes money going to police authorities.

Appendix E

Gedling

Table 1 - 2012/13 Adjusted Formula Funding Baseline

	2012/13 £m
2012/13 Formula Grant (excluding Council Tax Freeze Grant)	6.135
Central Education Functions Within LACSEG	0.000
2012/13 Adjusted Formula Grant	6.135

Table 2 - Formula Funding Change

2013/14 Provisional Settlement	2012/13 Formula Grant (exc. CT freeze grant) £m	2012/13 Adjusted (less LACSEG) £m	2013/14 Formula Funding £m
2013/14 Formula Funding (£m)	6.135	6.135	5.804
% change (2012/13 Adjusted to 2013/14 Formula Funding)			-5.4%

Figure 1 - 2012/13 Formula Grant (£m) & 2013/14 Formula Funding (£m)

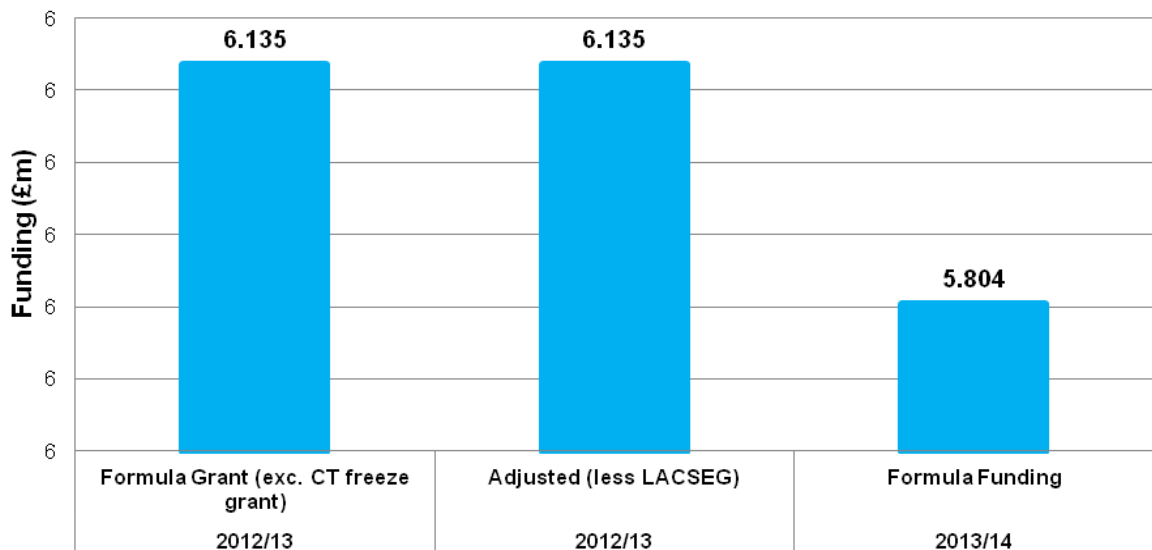


Table 3 - Formula Funding Change Comparison	
Change in Funding (based on adjusted figures)	2013/14
Gedling	-5.4%
Inner London Boroughs incl. City	-1.4%
Outer London Boroughs	-1.8%
Metropolitan Districts	-1.9%
Shire Unitaries	-3.1%
Shire Counties	-5.2%
Shire Districts	-6.8%
England	-1.6%

Note: England figure includes Police and Fire authorities

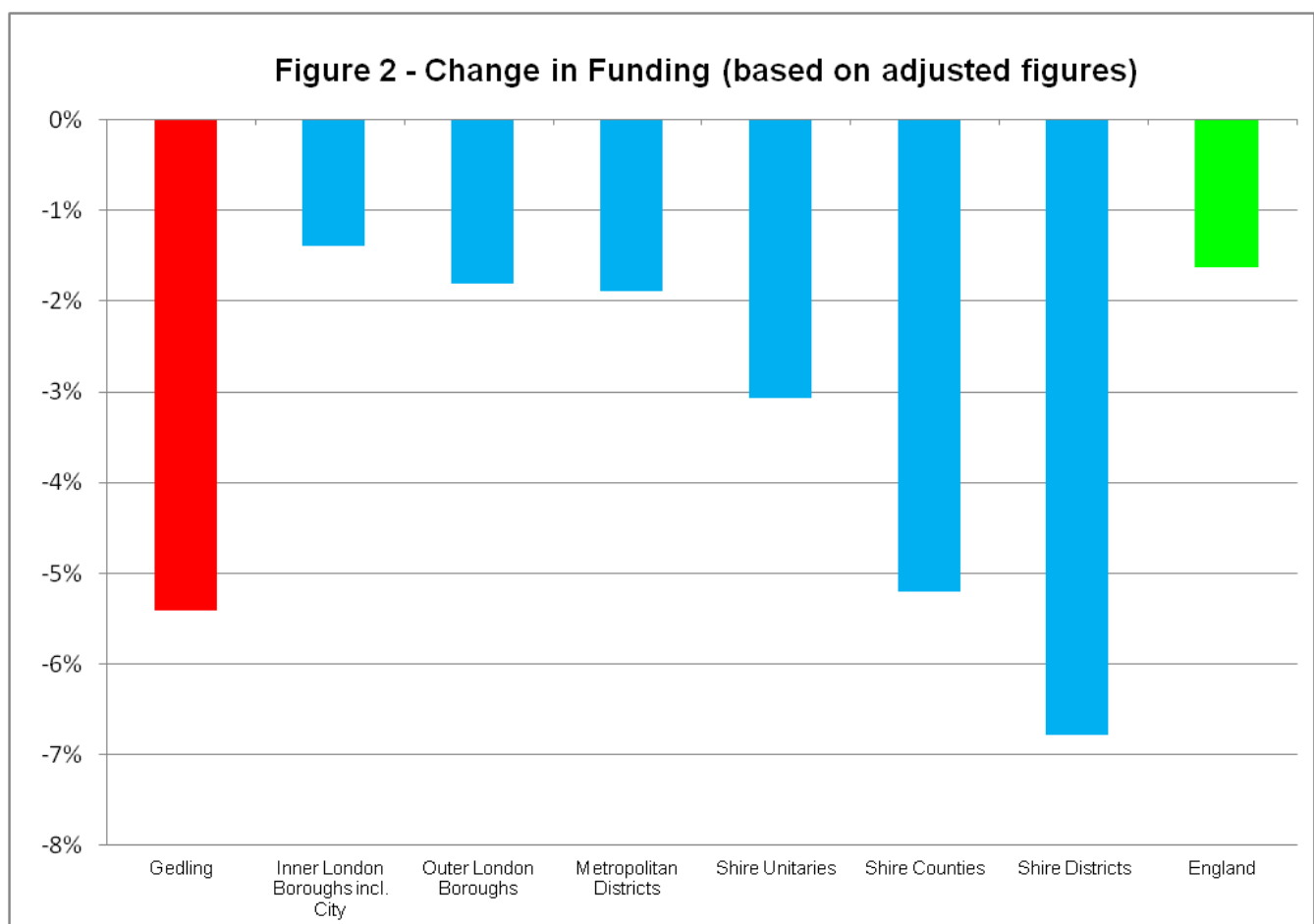


Table 4 Specific Grants rolled in	
	2013/14 £m
Council Tax Freeze Compensation	0.139
Council Tax Support Funding	0.706
Early Intervention Funding	0.000
GLA General Funding	0.000
GLA Transport Funding	0.000
London Bus Service Operators Funding	0.000
Homelessness Prevention Funding	0.078
Lead Local Flood Authority	0.000
Learning Disability and PH Reform	0.000
Total Grants rolled in	0.923

Table 5 - Calculation of Formula Grant / Start-up Funding Assessment			
	Adjusted Start-up Funding Assessment t 2012-13 £m	Provisional Start-up Funding Assessment t 2013-14 £m	Provisional Start-up Funding Assessment t 2014-15 £m
Grants rolled in Using Tailored Distributions		0.000	
Relative Needs Amount		2.219	
Relative Resource Amount		(1.819)	

Central Allocation		5.061	
Floor Damping		0.344	
Central Education Functions Within LACSEG		0.000	
Grants rolled in to the Start-up Funding Assessment (Table 4)		0.923	
Start up Funding Assessment	7.060	6.727	5.862
Year on Year % change		-4.7%	-12.9%

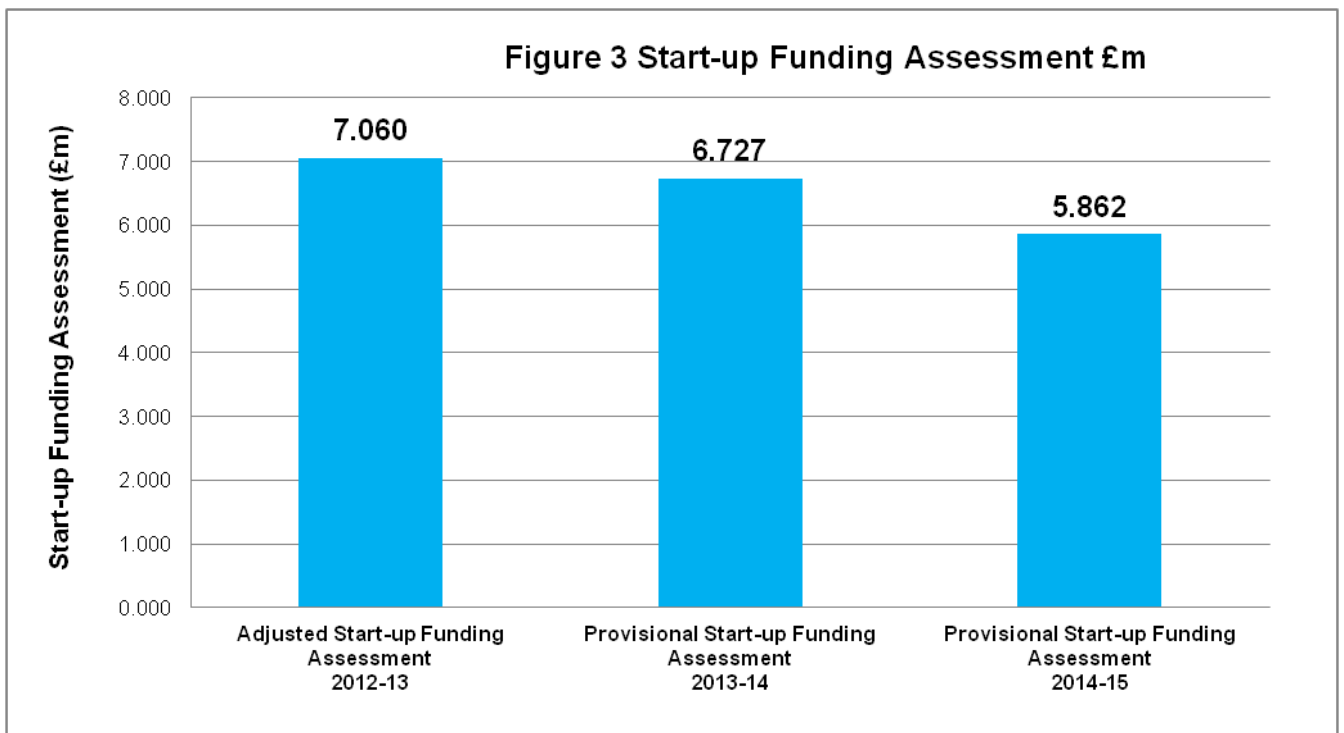


Table 6 - National Figures - Start up Funding Assessments			
	Adjusted Start-up Funding Assessment 2012/13 £m	Provisional Start-up Funding Assessment 2013/14 £m	Provisional Start-up Funding Assessment 2014/15 £m
Start up Funding Assessment	27,140	26,074	23,846

Year on Year % change	-3.9%	-8.5%
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Table 7 - 2013/14 Start-Up Funding Assessment	£m
Revenue Support Grant	4.040
Baseline Need	2.688
Start-Up Funding Assessment	6.727

Table 8 - Top up / Tariff Figure	£m
Baseline Need	2.688
NDR Baseline	7.964
Tariff Amount	(5.277)

Table 9 - Levy Rate	£m
Baseline Need	2.688
NDR Baseline	7.964
Levy Rate = 1 minus (Baseline Need/NDR Baseline)	50.00%

Table 10 - Safety Net	£m
Safety Net Threshold	2.486
Baseline Need	2.688
NDR Baseline	7.964
Percentage reduction in NDR income to hit the threshold (based on NDR baseline)	2.53%

Table 11 - Sensitivity Analysis			
Actual NDR achieved in 2013/14 (relative to NDR Baseline)	Start-Up Funding Allocation (£m)	Actual Funding (£m)	Difference in Funding
Baseline NDR +3%	6.727	6.847	1.78%
Baseline NDR +2%	6.727	6.807	1.18%
Baseline NDR +1%	6.727	6.767	0.59%
Baseline NDR	6.727	6.727	0.00%
Baseline NDR - 1%	6.727	6.648	-1.18%
Baseline NDR - 2%	6.727	6.568	-2.37%
Baseline NDR - 3%	6.727	6.526	-3.00%

