

Levy surplus 18-19 – proposal for distribution of the 18-19 levy account surplus

Introduction

1. Each year, in the Business Rates Retention System, the balance on the levy account must be calculated. If there is a surplus on the account, the Secretary of State for Housing, Communities and Local Government has discretion to designate all, or part (or none) of that surplus, which can then be distributed to local authorities.
2. This paper looks at some of the considerations that, this year, will inform the Secretary of State's decisions.

Background

3. Within the operation of the business rates retention system some authorities pay a levy on business rates growth, which is used by Government to cover the cost of safety net payments made to other authorities that have seen a decline in their income. Levy and safety net income/payments are credited and charged to the levy account, which is administered by the Department.
4. In the early years of the system, Safety Net payments exceeded levy receipts. To ensure that there were sufficient funds in the levy account to make safety net payments, we have credited £255m to the account since 2013-14. However, since 2017-18, there has been a surplus on the account and last year Government returned £180m to local authorities.
5. Legislation provides that the Secretary of State must keep a levy account for each financial year and must calculate whether there is a remaining balance on that account (after all levy payments have been received and safety net payments made) within that year. If there is a remaining balance, the Secretary of State may then determine whether all or part of that remaining balance is to be distributed to local authorities. Payments must then be made before the end of the year (31 March 2020).

Issues to consider this year

6. Because legislation requires payment of a levy account surplus to be made before the end of the financial year, Government is forced to calculate the balance on the account and determine any distributable amount before all certified NNDR3s have necessarily been received. In relation to the 2017-18 and 2018-19 Levy Accounts, the number of outstanding certified forms was very small, but currently in relation to the 2019-20 account we are still waiting for around 50 authorities to submit certified forms. This increases the risk that whatever amount the Secretary of State may determine should be distributed, could change (and perhaps significantly), between the point at which the Secretary of State makes that determination and the end of the year when, in accounting terms, the levy account surplus is finally recognised. Accordingly, the Secretary of State is likely to be more cautious in taking any decision about the amount of money to distribute.

Calculation of the balance

7. The estimated balance on the levy account currently stands at £61.8m, but around 25% of this is based on NNDR3s that have yet to be certified.

8. Government will need to keep an amount in the levy account in order to be able to pay for safety net payments on account in the next financial year, following submission of the NNDR1 2020-21. As approximately a quarter of the closing balance is accounted for by uncertified returns, this means that any amount to be distributed will likely be smaller than would otherwise have been the case.

The basis of distribution

9. Legislation¹ was passed last year setting out the 'basis of distribution' for any surplus on the levy account. This is based on LAs' settlement funding assessment (SFA), their assessed need as defined in 2013-14.
10. SFA is a recognised basis for assessing local authority need and represents the combined quantum for each authority of their Revenue Support Grant and Baseline Funding Level allocations. In setting up the BRR system, £255m of LAs' money was top-sliced from the Settlement; this methodology ensures that all LAs receive a share of the surplus in proportion to their assessed need.
11. Any he surplus will be distributed via this methodology.

Next steps

12. Ministers will make decisions and payments (if any) will by 31 March.

¹ See <http://www.legislation.gov.uk/ukxi/2019/709/contents/made>