Ministry of Housing,
Communities &
Local Government

Update to Steering Group on technical development of the Alternative Model

Local Government Finance Reform, MHCLG

1 October 2019

Alternative Model – the basics

- Separate calculation of equalisation and retention.
  - Block 1: Equalisation – guarantees funding baseline;
  - Block 2: ‘Growth’ in business rates – separately calculated from a growth” baseline adjusted for the impact of “appeals”.
- Each year’s tariffs and top-ups calculated as the sum of the Block 1 and Block 2 calculations.
- All papers on the LGA Business Rates Hub

Ministry of Housing, Communities & Local Government

Alternative Model – recent meetings

- SDWG/IWG met in May, June and August 2019

- Further meetings to be programmed

- MHCLG papers – mixture of discussion and modelling

  - BRR Admin Model (April/May)
  - Options for measuring growth under the reformed Business Rates Retention System (May)
  - Growth: appeals, revaluation and reset (May)
  - Operationalising the alternative arrangements (June)
  - Levy and safety net under the alternative arrangements (June)
  - Relationship between growth and collection fund (August)
  - Relationship between reliefs, adjustment factors and growth (August)

BRR Admin Model/ Options for measuring growth

- Equalisation – would set out BFLs in in LGFS – enabling authorities to calculate top-ups and tariffs

- Measuring Growth – key issues:

  - What year to use – could run with a two year lag but most MHCLG work has been based on provisional adjusted at outturn.
  - Measure either gross or net – the former would exaggerate growth.
  - Data source for growth calculation, either:

    - NNDR returns – would require prior year adjustments to be set out year by year;

      Or
    - VOA data – would require an adjustment factor to convert to net.

- Treatment of decline – Non-appeals related taxbase decline should be reflected – protected by safety net.

Growth: appeals, revaluation and reset

- Paper uses a simplified worked model – assumes VOA data non-lagged

- Main issues:

  - The "growth baseline" would be adjusted for those rateable value changes that are backdated to the start of the list.
  - The baseline would not be adjusted for changes to RV that are not backdated to the start of the list.
  - At revaluation, "growth" baselines and adjustment factors (if using VOA data) would be recalculated.
  - Might need to maintain two sets of growth calculations to deal with RV changes made to one rating list, after the introduction of a new list.
  - Partial and phased resets both possible – need not align with revaluations.

Operationalising the alternative system

- Confirms that provisional settlement would set out BFL and “growth calculation” methodology – enabling tariffs and top-ups to be worked out – therefore no need to change timing of NNDR1.

- No need to have a separate system of transitional protection payments – changes to non-domestic rating income as a result of transitional arrangements automatically taken into account in Block 1 calculation. Impact of transitional arrangements need to be disregarded from the Block 2 calculation to ensure it does not distort growth payments.

- No need for Section 31 “compensation” payments – can be rolled-up in the Block 1 calculation. But will need to be factored into Block 2 calculation.

- Collection fund surpluses and deficits – could be made wholly payable to/by central government as a simplification – see later paper.

Levy and safety net under alternative arrangements

- Current legal framework will remain in place – requires a separate levy account.

- Therefore levy and safety net payments still need to be shown separately – and calculated and made at the end of the financial year – although safety net payments can be made on account.

- So levy and safety net would work much as it does now – MHCLG would issue a calculator with the NNDR1 and reissue it with the NNDR3.

- Still a decision to be taken on the details of the levy and safety net – e.g. levy rates, safety net thresholds etc.

Relationship between growth and the collection fund

- Follows previous paper and contains a worked example.
- Not about the relationship between billing authorities and preceptors – more about the relationship between central and local government.
- Paper on accounting treatment from CIPFA still to come.
- Changes to provisions and bad debt will be picked up by the Block 1 calculation and impact tariffs/top-ups – so the Government takes the risk – they have no impact on the Block 2 growth calculation.
- At the set-up of the system the Government would have to build in an estimate of total appeals loss.
- The alternative arrangements do the opposite of the current arrangements; over- or under-estimating appeal loss/provisions at the set-up of the scheme would be borne by central Government, instead of local authorities.
- Changes to reliefs would impact collection fund surpluses and deficits and the adjustment factors would determine the extent to which the impact of marginal changes in reliefs was reflected in Block 2 “growth” calculation.

Ministry of Housing,
Communities &
Local Government

Relationship between reliefs, adjustment factors and growth

- Assumes VOA method of measuring growth is used.
- An adjustment factor is used to convert gross rates payable into net rates payable.
- Two key decisions: national v. local and fixed v. variable.
- MHCLG prefer a national fixed AF for the sake of simplicity and predictability – also it would ensure growth is rewarded at the same rate everywhere.
- Would affect authorities in different ways – authorities with higher than average reliefs would benefit more by using national – ditto the reverse.
- A fixed AF would provide protection if reliefs rise until such point as the AF is reset.
- MHCLG to do further work.

Ministry of Housing, Communities & Local Government

Business Rates Retention Reform
Work going forward

- One year delay now confirmed – so implementation in 2021 will coincide with 2021 revaluation.

- Further meetings of SDWG/IWG to be held.

- More work on:

    - Accounting for collection fund surpluses and deficits
    - Illustrations of the safety net and levy under various options
    - More about VOA data and publication
    - Changes not in the baseline
    - More about software requirements
    - Transition – both in theory and practice
    - Designated areas and renewable energy in the AM

- Further engagement with the sector.