**OPERATIONALISING THE ALTERNATIVE ARRANGEMENTS**

**Introduction**

1. Previous working group papers have looked at what an “alternative model” of business rates retention might look like and considered the ways in which the different elements could be configured and calculated.
2. This paper looks at how the alternative model could be operationalised and administered day-to-day.
3. The working group is invited to consider the options outlined in this paper; their implications for budgeting, operating systems and resourcing in local authorities; and identify any omissions.

**Background**

1. Currently, the day-to-day administration of the business rates retention scheme relies on figures set out in the Local Government Finance Settlement and on data collected in NNNDR1s and NNDR3s.
2. The process and timetable are broadly as follows:



1. Under the alternative model, each authority’s tariff or top-up for a year would be calculated as the sum of two elements:
	1. Stage 1:- The difference between its baseline funding level (BFL) and its share of non-domestic rating income (as per NNDR1); and
	2. Stage 2:- “growth”, calculated in such a way as to strip out the impact of appeals and provisions
2. As such, authorities would be guaranteed funding in any year that was equivalent to their BFL, plus growth – see below.



1. The administration of the system would, as now, rely on data collected in NNDR1s and NNDR3s. But there would be differences in what data was collected and in what information would be provided to authorities at Settlement.
2. Process and timetable might look broadly as follows:



1. The rest of this paper looks in greater detail at each of these and other elements connected with the administration of the rates retention system.

**Provisional and Final Settlement**

1. Currently, the provisional Local Government Finance Report (LGFR), published in late November/early December, and the final LGFR, published in late January/early February, set out the amounts of RSG that authorities will receive and the tariffs/top-up amounts that will be paid by, or to them.
2. Once RSG is rolled-in to the business rates retention system, one might expect that the LGFR would continue to provide authorities with their tariff and top-up figures. Under the alternative model, however, the NNDR1 data that will be needed to calculate tariffs/top-ups will be provided too late to inform the provisional and final LGFRs. But does this matter?
3. The answer to that question might depend on the answer to two subsidiary questions:
	1. What is the Government legally required to produce as part of the LGFR?
	2. How would the absence of tariff/top-up numbers at a Settlement affect local authorities’ budget process?
4. In relation to tariffs and top-ups, legislation[[1]](#footnote-1) requires that the LGFR must specify *the basis on which the Secretary of State intends to calculate:*
	1. which authorities are to make payments;
	2. which authorities are to receive payments; and
	3. the amount of each payment.
5. The legislation requires the Secretary of State to make those calculations only after the LGFR is approved by the House of Commons[[2]](#footnote-2).
6. So, legally, there appears to be no reason why the Government needs to provide authorities with the amount of their tariff/top-up until after NNDR1s are returned at the end of January.
7. As far as budget-setting is concerned, whilst currently, authorities will not know what their share of non-domestic rating income will be until after they have completed NNDR1s at the end of January, they do at least know their RSG and their tariffs/top-ups provisionally in December.
8. On the face of it, therefore, the alternative arrangements would appear to leave authorities with less information in December than at present. But, in reality, authorities could be given as much, if not more, budget certainty than now at the provisional LGFR. This is because, in a provisional LGFR, we could set out each authority’s *baseline funding level* and the methodology by which we would calculate tariffs and top-ups. As set out in paragraph 7 above, each authority would know that regardless of the tariff/top-up amount finally calculated, their non-domestic rating income would equal *baseline funding level*, plus their “growth”.
9. At the very least, the provisional LGFR would also set out how “growth” was to be calculated. Under an alternative model in which growth was calculated using NNDR1 data, authorities would be able to calculate the growth figure themselves as soon as they had completed their NNDR1 (in other words, they would be in the same position vis-à-vis growth, as they are currently vis-à-vis their share of non-domestic rating income). If, on the other hand, we were running a “lagged system”, we could publish the growth figure to be used in the tariff/top-up calculation at the provisional LGFR (as long as the Government committed itself to keep the same methodology for calculating growth throughout a reset period, under a lagged system, authorities would be able to estimate their own “growth” figures as soon as they had completed the NNDR3s on which that growth was to be calculated (ie. in the July before the provisional LGFR).

**NNDR1s**

1. As set out above, there would be no need to change the timing of NNDR1s as a result of the alternative model. Forms could continue to be sent to authorities in mid-December and returned by end-January. Any change in timing would be driven by a desire to bring the process forward for other reasons, not because of an operational need arising from the adoption of the alternative model.
2. Under the alternative model, the data collected through NNDR1s would be broadly similar to now. Potentially, there could be differences in the treatment of:
	1. transitional protection payments
	2. section 31 grants
	3. estimated Collection Fund surpluses and deficits

*Transitional Protection Payments*

1. Under the current system of fixed tariffs and top-ups, there is a system of transitional protection payments. These ensure that local authorities’ non-domestic rating income does not vary year-on-year as a result of the unwinding of the transitional arrangements put in place by Government following the Revaluation. If as a result of the transitional arrangements, an authority has less non-domestic rating income than would otherwise have been the case, they receive a transitional protection payment for the difference; if they have more non-domestic rating income, they make a transitional protection payment to Government.
2. Under the alternative arrangements, because tariffs and top-ups are adjusted each year to take account of changes to non-domestic rating income, they will automatically adjust for fluctuations in income resulting from the unwinding of the transitional arrangements. Authorities will always receive their baseline funding level following the “stage 1” calculation (see paragraph 6 above), regardless of whether they receive more of less income year-on year as a result of the transitional arrangements. As such it will no longer be necessary to have a separate system of transitional protection payments.
3. It will, however, still be necessary to take account of the impact of the transitional arrangements when making the stage 2 calculation for growth (see paragraph 6 above), otherwise, the “growth” calculation will itself be distorted by the unwinding of the transitional arrangements. However, this does not need to involve a payment to/from authorities, it is simply a matter of reversing the impact of the transitional arrangements in calculating:
	1. the growth baseline; and
	2. growth against that baseline.
4. Similarly, we will need to take account of the impact of the transitional arrangements in working out the “disregarded amounts” – ie the amounts that are to be deducted from the calculation of non-domestic rating income and retained in their entirety by local authorities in respect of EZs, renewable energy etc. But, in the same way as for the calculation of growth, it will not be necessary to have a separate system of transitional protection payments. It will be enough to ensure that the impact of the transitional arrangements is included in the calculation of disregarded amounts.

*Section 31 Grants*

1. Currently, authorities receive s.31 grants to compensate them for the loss of business rates income resulting from changes to business rates (as a tax) made by the Government since the introduction of the business rates retention system in 2013.
2. The calculation of s.31 grants significantly adds to the complexity of administering the business rates system and introduces another payment that needs to be separately reconciled after year-end.
3. Under the alternative model, there would no longer be any need for s.31 payments. Reductions to business rates income caused by Government changes to business rates (as a tax) would – subject to paragraph 29 below – be reflected in NNDR1 figures for non-domestic rating income and, therefore, would be adjusted through the stage 1 calculation of tariffs and top-ups.
4. To ensure that changes to business rates (as a tax) could be reflected in NNDR1s, it would be necessary for Government to announce those changes in time for them to be reflected in the NNDR1s issued to authorities in December and for authorities to be able to take account of them in making their returns. Changes to business rates (as a tax) made after the publication of NNDR1s could not be reflected in that year’s stage 1 calculation of tariffs and top-ups, but instead, would result in a larger deficit/smaller surplus on the Collection Fund. However, as set out from paragraph 30 onwards, this would not matter in resource terms, although it might have a cashflow consequence.

*Estimated Collection Fund Balances*

1. Under the current arrangements, Part 4 of the NNDR1 requires authorities to estimate the surplus/deficit on the Collection Fund for the “previous” year. This amount is then shared between the parties to the business rates retention scheme (including central government) and paid in the year to which the NNDR1 relates. The difference between the “estimated” surplus/deficit and the “actual” surplus/deficit (which is not known until after NNDR3s for the “previous” year are completed) is included in the following year’s estimated surplus/deficit. Hence, the actual surplus/deficit for any year takes two years to reconcile.
2. It would be possible for the alternative model to work in exactly the same way as the current arrangements insofar as Collection Fund surpluses and deficits are concerned. To meet the objective that, the tariff/top-up would be set in order to guarantee each authority its baseline funding level (BFL) plus growth, an authority’s share of the estimated surplus/deficit would need to be taken into account in making the tariff/top-up calculation:



1. Alternatively, it would be possible, to simplify the administration of the rates retention system by making the entire Collection Fund surplus/deficit payable to central government and ignoring it for the purposes of setting the tariff/top-up. From local authorities’ perspective, the result would be exactly the same.



1. The cost to central government would also be the same:



1. But by making the entire Collection Fund surplus/deficit payable to central government and ignoring it for the purposes of setting the tariff/top-up, it would be possible to dispense with the need for authorities to estimate the previous year’s surplus/deficit. Hence, part 4 of the NNDR1 could be scrapped. Instead, the actual surplus/deficit could be calculated as part of the NNDR3 and a single payment made by/to central government – see paragraph 40 below.
2. Regardless of whether Collection Fund surpluses/deficits are shared between local and central government, or not, the alternative arrangements are likely to complicate the accounting arrangements. This is because any Collection Fund surplus/deficit comprises, in part, of the “growth”, which under the alternative model we are calculating independently and paying to authorities under the stage 2 calculation of tariffs/top-ups. We and CIPFA will present a paper setting out the issues to a future meeting of the working group.

**Payments following submission of NNDR1s**

1. Under the current arrangements, NNDR1s are used to determine the amounts that are payable by, or to local authorities in respect of the “central share”, “transitional protection payments”, “Collection Fund balances” and “s.31 grants”. Together with the payments due to/from authorities in respect of “tariffs/top-ups” and “RSG”, as set out in the LGFR, the payments are notified to authorities in a payments schedule and made/collected in instalments throughout the financial year.
2. Under the alternative arrangements, NNDR1s would be used to calculate “central share” payments and “tariffs/top-ups”. As discussed above, there would no longer be a need for “transitional protection payments” or “s.31 grants”; nor, necessarily for estimated Collection Fund surpluses/deficits. RSG, we anticipate would be rolled-in to the business rates retention scheme and would be dealt with through the tariff and top-up calculation. As such, the alternative model could rationalise the number of payments being made to authorities.

**NNDR3**

1. Under the alternative model, the timing of NNDR3s would remain unchanged. NNDR3s would be published in mid-March, for return provisionally by the end of April, in order to allow authorities to use the figures in their draft accounts. In the same way as now, final NNDR3s would be returned by end of July after local authority accounts had been signed-off by auditors. S.151 officers would be required to certify that the final NNDR3s were correct and consistent with local authority accounts.
2. The content of NNDR3s would remain largely the same as now. As discussed in previous papers, in part 3 we might need to make changes to the way in which prior-year adjustments are recorded. Depending on how we measure growth for the purposes of the Part 2 calculation of tariffs and top-ups, we might need to include a prior-year adjustment figure for “gross rates payable”; and breakdown every prior-year adjustment figure to show a value for individual years. In theory, the form would need to continue to breakdown the figure for particular individual years until all the list changes that could affect that year have been made. This could complicate the format of the NNDR3 considerably.
3. As indicated in paragraph 34 above, we might also want the NNDR3 to show, for convenience, the actual surplus/deficit on the Collection Fund. This figure should simply be the difference between the non-domestic rating income recorded on the NNDR1 and the non-domestic rating income recorded on the NNDR3. Other changes in figures between NNDR1s and NNDR3s – eg for Cost of Collection, or disregarded amounts would be reconciled following the submission of NNDR3s, in the same way as now (see paragraph 43 below).

**Reconciliation Payments**

1. Under the existing system, changes in “non-domestic rating income” between NNDR1s and NNDR3s do not result in a payment between central and local government following the submission of NNDR3s. Instead the difference produces a a surplus/deficit on the Collection Fund which is dealt with as described in paragraph 30 above.
2. Other changes between NNDR1 and NNDR3 - for example for the amounts retained by authorities for EZs, or deducted from central share for Case A and Case B relief, are reconciled following the submission of the NNDR3.
3. Under the alternative arrangements, we would probably want to continue to reconcile these amounts following the submission of NNDR3s; and as set out in paragraphs 32 - 34 above, could even reconcile the Collection Fund balance at NNDR3 stage as well.

**Dealing with Revaluations**

1. Under the current system, where tariffs and top-ups are “fixed”, a Revaluation requires that we adjust tariffs and top-ups immediately following the Revaluation to ensure, as far as possible, that authorities have the same income from business rates as they would have done if the Revaluation had not taken place.
2. The adjustment calculation is complex. Moreover, because of the availability of data, at the last Revaluation in 2017, we had to set tariffs and top-ups for 2017-18 and then further adjust them in 2018-19 to reflect data changes between the time of the 2017-18 Settlement and the first day of the rating list (1 April 2017). This resulted in considerable administrative complexity.
3. Under the alternative model, because tariffs and top-ups are adjusted each year to reflect the most recent NNDR1 forecast of non-domestic rating income, we would not need to do anything special following a Revaluation. The stage 1 calculation of tariffs and top-ups would automatically take account of the impact of the Revaluation and ensure that, regardless of how income had changed following the Revaluation, the authority’s tariff/top-up would guarantee them the equivalent of their baseline funding level.
4. For the purpose of the Stage 2 calculation for growth, we would, as described in previous papers, need to reset the growth baseline at each Revaluation. This does not necessarily mean that authorities would have only three years growth under the alternative arrangements. As described in previous papers, it would be possible, depending on decisions about the length of time between resets, to continue to build into the stage 2 calculation, the growth earned on a previous rating list.
1. Paragraph 12 of Schedule 7B to the Local Government Act 1988 [↑](#footnote-ref-1)
2. Paragraph 13 of Schedule 7B to the Local Government Act 1988 [↑](#footnote-ref-2)