

**100% RATES RETENTION: IMPACT ON LOCAL AUTHORITY ACCOUNTING**

**Introduction**

1. This paper looks at some of the options that government could consider as part of its redesign of the business rates system. The purpose of the paper is to pose some high level questions about the accounting framework for business rates collection at an individual local authority level.
2. The next working group will consider the implications of some of the more detailed questions that are likely to be asked as part of the consultation.

**NDR accounting within local authorities**

3. Billing authorities currently collect NDR under what is, in substance, an agency arrangement. This means that the income collected, debtors and creditors with taxpayers and any impairment or allowance for doubtful debts or successful appeals are not the assets or liabilities of the billing authority. As a result, the billing authority cannot recognise income and expenditure relating to NNDR collection in its Comprehensive Statement of Income and Expenditure.
4. The rationale for this is that cash collected from NDR taxpayers by a billing authority is collected for the Government. It is then redistributed in accordance with the agreed shares after deducting allowable costs.
5. 100% Business Rates retention changes this rationale. At the moment, there is no expectation that there will be a central share. Therefore, it is more difficult to justify the rationale underpinning collection fund accounting under the current business rates framework on the basis that billing authorities collect NDR on behalf of central government.
6. However, the Chancellor of the Exchequer has announced that there will be some form of redistribution within the new system. It would also be reasonable to expect some form of protection for local authorities whose NDR income drops below a baseline needs assessment. Finally, not all authorities will be billing authorities. These factors mean that some form of agent's statement will still be required to demonstrate that NDR income has been redistributed between local authorities in accordance with agreed shares.
7. If the requirement to account for NDR collection and distribution through a collection fund account is removed, it will be necessary to reconsider whether it remains appropriate for Council Tax accounting. This is partly because many of the principles underpinning local authority accounting under 100% Business Rates retention may be transferable to Council Tax accounting. In addition, government is unlikely to want to propose a policy that leads to a mismatch between accounting for the two main sources of locally generated revenue. This is because such a solution would run counter to the principle of improving transparency.

**Potential implications for local authority budgeting**

8. Any change to the requirement to produce a collection fund could have an impact on the volatility of NDR income that local authorities are allowed to recognise in their accounts and therefore on the balanced budget calculations.
9. This might be a welcome development as it could make it easier for local authorities to demonstrate how they have aligned their budget setting, accounting and treasury management. However, it could significantly increase the risks to setting a balanced budget and may increase the challenge for s.151 Officers in fulfilling their statutory responsibilities in relation to proper management of an authority's financial affairs.

**QUESTIONS FOR DISCUSSION**

- Q.1 Is the collection fund account the most appropriate way to account for the collection of business rates under 100% retention?**
- Q.2 If the requirement to produce a collection fund is removed, how will billing authorities provide assurance to precepting authorities and users of the accounts that business rates collected and allowable deductions have been properly apportioned?**
- Q.3 If government decides to move away from collection fund accounting for business rates, what are the implications for accounting for council tax collection?**
- Q.4 Would removal of the collection fund have any implications for how the balanced budget requirement works or for any other aspect of the statutory accountability framework?**
- Q.5 If the collection fund is the most appropriate way to account for the collection of business rates, is there any way in which it could be made more transparent to elected members and other users of the accounts?**
- Q.6 If the collection fund is the most appropriate way to account for the collection of business rates, is there any way in which it could be simplified**