Implications of central government accounting and accountability on budgeting for protections within the system

<u>The issue</u>

1. The paper at Annex A set out DCLG's outline thoughts on how accounting within central government would work under 100% Business Rates Retention. It has been shared with DCLG's external auditors (NAO) and with Treasury.

2. As set out in the paper the 100% Business Rates system will have the following features:
    a) 100% of business rates income will be retained by the sector.
    b) The reform will be fiscally neutral.
    c) The levy will be abolished.
    d) Business rates will remain a central government tax. This means that DCLG will need budget cover from Parliament for the cost of any protections.

3. In practice this means that DCLG will need to make an estimate of the total amount of budgetary cover it needs in any given year to fund the protections built into the system. This is likely to be reflected in the total amount of funding available to local authorities through an excess of tariffs over top-ups.

4. In any given year there is likely to be a difference between the amount that DCLG estimates it needs to fund protections and the amount actually used and disclosed in the annual Business Rates Accounts. In a scenario where those protections are fully funded from the total pot of business rates this difference will need to be carried forward so that the policy objectives outlined in paragraph 2 can be met.

5. There are two ways by which policy objectives can be met:
    a) Treat the reconciling amount as an adjusting item to the following year's available pot of business rates: This would mean that top-ups and tariffs would need to be adjusted each year, but the size of the annual adjustment would be likely to be relatively small.
    b) Carry the difference forward year on year, and reconcile the total amount of funding in the system at each reset period: This would allow top-ups and tariffs to be fixed for a reset period, but there would be the risk that a larger adjustment to the total amount of funding available would be necessary for the following reset period.

6. What would be the implications for LA budget setting and/or accounting of adopting either of the options in paragraph 5.

Annex A: 100% Business Rates Retention – Outline Proposals for Central Government Accounting and Accountability

Introduction

1. The purpose of this paper is to consider, at a high level, how central government accounting and accountability will work following the introduction of 100% business rates retention. These proposals are at a fairly early stage of development and the detailed proposals contained therein may be subject to change following discussions with stakeholders.

2. The objectives of the proposals are:
   - To maintain appropriate transparency and Parliamentary accountability for NDR collection, whilst simplifying accounting requirements;
   - To highlight that DCLG will still require Parliamentary budget cover through the supply estimates process for some elements of the system; and
   - To provide LAs with assurance that the Government commitment that 100% of business rates income is being retained by the sector is being met.

Current Position

3. Under the current scheme LAs are required to pay to Government a 50% share of the amount payable by ratepayers in the authority's area after accounting for certain allowable adjustments. In practice, because in any given year LAs get the amount of BR income they budget for, the total amount of business rates collected by LAs and thereby the total amount to be paid over to central government is calculated on a three-year rolling cycle. Funds are redistributed between authorities that collect more business rates income than they need and those that collect less, through a system of top-ups and tariffs.

4. DCLG needs budgetary cover through the Supply Estimates Process for the Local share, the annual reconciliations under the three year rolling-NDR reconciliation cycles and for all protections that are built into the system. In practice, most cover is top-sliced from LG DEL (i.e. the budget primarily used to fund the annual Revenue Support Grant) or included in AME as appropriate.[1]

5. DCLG is required by statute to prepare three NDR related accounts, each of which are subject to audit by the C&AG and which are required to be laid before Parliament. These are:
   - The Trust Statement Account – which accounts for the NDR due to central government;

[1] In-year transitional protection payments are the exception, although technically these are outside the NDR system.

- The Main Rating Account – which records the cash transactions to and from local authorities and the debit to the account as provided for under legislation.
- The Levy Account – This demonstrates the degree to which the levy, which is paid by authorities who see growth above a certain level, funds the safety net for those whose BR income has fallen below a certain level.

6. Whilst the Trust Statement Account is a standard account of tax collection, the other two accounts are, in effect, memorandum accounts that demonstrate that the system is working in accordance with legislation. This can lead to perverse effects, the main example being the credit balance on the Main Rating Account, which makes it look like central government owes LAs money.

Features of the new system

7. Under the new system government has committed to 100% of business rates income being retained by the sector and that the reform will be revenue neutral. In practice this means that neither the central share, nor RSG will exist. In addition Treasury has announced that the levy will no longer exist.

8. Redistribution between authorities will still happen and some elements of protection are likely to be built into the system. The current expectation is that this will be done through adjusting top-ups and tariffs. It is unlikely that there will be any change to the statutory provisions for calculating a LA's balanced budget, so the three year rolling cycle for accounting for BR income will remain.

Proposed accounting and accountability under 100% retention

9. DCLG will still need budgetary cover through the Supply Estimates process for any protections built into the 100% system. This could be DEL or AME depending on the nature of the protection. In addition, budgetary cover will be required to cover movements under the three year rolling cycle of accounting for BR income (reconciliations). This will largely all relate to the local share and is likely to be AME.

10. As government has committed to the reform being revenue neutral, any budgetary cover given to DCLG will need to be seen to be funded out of the pot of business rates. There are choices about how to demonstrate that central Government has only taken the amount it needs to fund protections out of the system and the interaction that this has with providing LAs with certainty about their top-ups and tariffs over a reset period.

11. NDR will almost certainly remain a central government tax. Therefore, DCLG will be required to prepare an account for the total amount of tax collected. However, as NDR will no longer be retained by the Exchequer, but instead will be returned

to LAs there will be no requirement to prepare a Trust Statement Account as defined by the *Exchequer and Audit Department Act 1921.* Instead we propose that the account required under the new system will be a Non-Domestic Rating Account which will be produced in a similar format to the current Main Non-Domestic Rating account.

12. Although much of the legislation relating to the Non-Domestic Rating Account will remain appropriate, we plan to remove the statutory provisions requiring specific items of account to be included and calculated in a specific way. Instead we propose to include the standard legislative provision to prepare the account in a form such as Treasury shall direct.

13. In order to demonstrate that the commitment that 100% of BR income will be retained by the sector is being met, it will be necessary to show that central government is keeping track of the difference between the amount top-sliced from the pot of BR and the amount used to finance the protections built into the system. However, as this will be a reconciliation between actuals and budget, it is not an item that should form part of the main statement of accounts. For this reason we propose including a requirement that a memorandum statement of this reconciliation be included in the same volume as the statutory accounts. As the statement of accounts will be laid before Parliament, this should provide appropriate transparency and accountability to stakeholders.

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