Changing the date of the draft rating list: implications for local government

Background

1. Currently, the VOA must produce a draft rating list at least 6 months before the revaluation takes effect. So for the 2017 revaluation a draft rating list was produced on 30 September 2016. In order to support the move to more frequent revaluations, the Non-Domestic Rating (Lists) Bill changes this latest date to 31 December preceding the revaluation. This will revert the law back to the position prior to 2005.

2. As with the current law, the Bill will provide that 31 December is the latest date for publication of the draft list. We will give ratepayers as much notice as possible of their draft rateable values and new rate bills. At previous revaluations the final multiplier and transitional relief scheme have been announced at the Autumn Budget ensuring ratepayers had several months notice. And, in any case, the regulations implementing the transitional arrangement must by law come into force by the end of December and that is not being changed. In practice these regulations must be laid in early December and clearly can only be done once the scheme has been announced.

3. This paper considers how the change in the draft list date can be accommodated within local government billing and Budget setting.

Local Government Billing

4. Ahead of the start of each year (whether in a revaluation or not) local government need to complete the NNDR1 and then prepare new rate bills. Under the existing business rates retention system, we ask local authorities to submit to us their forecast business rates income for the following year by the end of January. And many local authorities start to issue demands later in February. Before either of these exercises can be completed authorities need to amend and test their software to reflect any changes to reliefs etc. Therefore, in practice local authorities need the various elements of rate bills in advance of the end of January.

5. In order to complete the NNDR1 and issue demand notices local authorities need 3 sets of data:

    a. firstly, they need the multipliers for the year. These are not available until the Autumn Budget. In a revaluation year draft multipliers may be published earlier but they are subject to change,

    b. secondly, they need details of the relief schemes. These are also generally announced at the Autumn Budget. In particular, in a revaluation year the transitional arrangements scheme is only finalised at the time of the Budget, and

    c. thirdly local authorities need the rateable values for the properties in their rating list. Between revaluations this is of course already available but for the revaluation year they need to use the new draft rating list.

6. It is only in respect of the third piece of data – the draft rateable values - that we are making any changes. As with previous revaluation lists, the other elements needed by local government will only be available at the time of the Budget. Therefore, provided draft rating lists are made available alongside the multiplier and reliefs then authorities

will have the same amount of time to prepare the NNDR1 and demand notices. The Bill will allow for this.

For discussion:

- Does this match your experience of how NNDR1 and demand notices are prepared?
- What other information would help you prepare for the NNDR1 and demand notices and when?

LA Budget setting

7. Interaction between business rates and local authority Budgets is via the Business Rates Retention Scheme (BRR). Early in the development of BRR revaluation was identified as a potential problem and area of uncertainty. Revaluation is a redistributive exercise – the multiplier is reset at the revaluation so some areas see increases and others reductions. This means that the rates income of an authority post revaluation depends not just on the growth (or otherwise) in the authority but also on the growth (or otherwise) of all other authorities. At a working level we illustrated this by reference to Shropshire UA in which at every previous revaluation the rate base had increased but the rates income had fallen.

8. In light of this the Government's policy under BRR has been that we will ensure, as far as is practicable, that retained rates income under the business rates retention scheme is unaffected by the revaluation. Therefore, irrespective of how rateable values change at the revaluation, local authorities can plan on the basis of this "revaluation commitment".

9. We already have experience of delivering this in practice. For the 2017 revaluation we achieved this by adjusting the tariffs and top ups in the scheme to reflect the change in income at the revaluation. We consulted with local government on the mechanics of these adjustments from summer 2016. For 2017 this was a collaborative process with the mechanics being developed with the IWG.

2021 Revaluation

10. How we approach this for 2021 depends upon the type of scheme we expect to have in place at that point:

    a. If the scheme continues in its current form then we intend to repeat the same process for the 2021 revaluation. We would intend to consult on the mechanics of the top up and tariff adjustments in the summer 2020 and firm this up in the Autumn so that authorities have certainty as to how their retained rates income would be affected by the revaluation, and

    b. If we change to a different approach then we will first need to consider how the revaluation will interact with the new system. Under the current proposal for the Alternative Model (AM) we would not have to make any adjustments to the scheme to meet the commitment on revaluation. The AM would adjust tariffs and top-ups in its first part to baseline funding levels and then in measuring growth would examine each rating list independently. Therefore, we believe the AM would deliver the commitment on revaluation without further adjustment.

Questions:

- Subject to the exceptions below, does this match your understanding of how the Budget process and the revaluation commitment will work around revaluation?
- What other information about the revaluation would help you with Budget setting, why and when?

11. There are some exceptions to this within business rates:

    a. EZs and retained renewables. Local authorities retain 100% of the growth within certain EZs (designated areas) and on renewables and shale gas (designated classes). Both designated areas and classes are outside the terms of the commitment on revaluation. Absolute changes in rates from these schemes at revaluation flows through into the retained rates income[1],
    b. Additional revenue from the City of London multiplier. The City can in effect set a supplement and retain the revenue from that outside of BRR. Changes in rateable values at revaluation will therefore feed into changes in income, and
    c. BRS. As with the City of London multiplier this is also outside of BRR.

    Questions:

    - Are any other BR revenue sources outside of the revaluation commitment?
    - How and when in practice is revenue from these sources budgeted for?
    - What could we do to support budgeting for these revenue sources prior to the publication of individual rateable values?

12. Finally, there are some other systems outside of business rates who use rateable values for their own purposes. This includes Business Improvement Districts and planning Blight. These schemes are separate to business rates but use rateable values for their own purposes. We will separately consider any timing implications with them.

[1] In designated areas only the baseline will be adjusted for the revaluation effect – this is to ensure that growth or decline in RV of properties in the baseline at revaluation does not feed into retained growth.