Local Government Resource Review: Proposals for Business Rates Retention

Technical paper 4: Business rates administration

www.communities.gov.uk

Local Government Resource Review: Proposals for Business Rates Retention

Technical paper 4: Business rates administration

August 2011
Department for Communities and Local Government

Department for Communities and Local Government
Eland House
Bressenden Place
London
SW1E 5DU
Telephone: 030 3444 0000
Website: www.communities.gov.uk

If you require this publication in an alternative format please email alternativeformats@communities.gsi.gov.uk

DCLG Publications
Tel: 030 0123 1124
Fax: 030 0123 1125

Email: product@communities.gsi.gov.uk
Online via the website: www.communities.gov.uk

August 2011

ISBN: 978 1 4098 3090 0

Contents

Chapter 1

Introduction

1.1. On 18 July, the Department for Communities and Local Government (DCLG), published a consultation paper, *Local Government Resource Review: Proposals for Business Rates Retention*.

1.2. This set out proposals for a rates retention scheme to replace the current local government finance system, under which business rates are redistributed as part of formula grant.

1.3. The consultation paper outlined the principal features of the proposed rates retention scheme. It undertook to provide further detail in a series of technical papers, to be published in August.

1.4. Taken together, the consultation paper and technical papers raise a number of questions about the proposed rates retention scheme, on which the Government is seeking views. The **consultation will close on Monday 24 October 2011**. Details of how to respond can be found on page 7 of the main consultation paper[1].

1.5. This is one of eight technical papers. The full list is:

Paper 1:	Establishing the Baseline
Paper 2:	Measuring Business Rates
Paper 3:	Non-billing Authorities
Paper 4:	**Business Rates Administration**
Paper 5:	Tariff, Top Up and Levy Options
Paper 6:	Volatility
Paper 7:	Revaluation and Transition
Paper 8:	Renewable Energy

1.6. All technical terms in the papers appear in italics and are explained in the Glossary of technical terms, which is attached to each technical paper as an annex.

1.7. An outline of the eight papers can be found in *Business Rates Retention – Technical Papers: An Overview*.

[1] www.communities.gov.uk/publications/localgovernment/resourcereviewbusinessrates

Chapter 2

About this paper

2.1 This paper looks at how the business rates retention scheme will be administered.

2.2 Currently, business rates are collected by 326 billing authorities (district councils in two tier areas, London Boroughs, Metropolitan District Councils, unitary authorities, the City of London and the Isles of Scilly) and paid in to a central pool. Revenue raised is re-distributed to local authorities as Formula Grant. Under the proposed rates retention scheme, billing authorities will continue to collect the rates due in their areas, but instead of paying them all to a central pool, will retain a proportion of what they collect. As a result, there will need to be new administrative arrangements governing the flows of money, and information, between local authorities and central government; and between billing and non-billing authorities.

2.3 Consistent with the underlying principles of the business rates retention scheme, it is the intention, so far as possible, to remove central government from the administration of the scheme. However, since some features of the proposed business rates retention scheme will require flows of money and information between central and local government, we have, for simplicity, sought to adapt and build on systems that will be familiar to authorities. So, for example, the system will use data derived from the estimates of annual business rates yield (NNDR1 returns) and annual outturn data (NNDR3 returns) that authorities currently provide.

2.4 We will work closely with business partners, including the Central and Local Government Information Partnership – Finance (CLIP-F), as we further develop the administrative arrangements; and in accordance with the policy on new burdens, we will fund the net additional costs to local government as a whole associated with implementing these changes.

2.5 Chapter 3 of this paper looks at the operation of the scheme in its first year. It considers the implications for both billing and non-billing authorities and sets out the process that central government will follow to determine the sums that are owed to it, or by it.

2.6 Chapter 4 looks at how the scheme will operate in subsequent years and chapter 5 summarises the payments that will need to be made between authorities and central government.

2.7 Chapter 6 looks at the information that will be required by both central and local government in order to ensure that the scheme is properly administered. Chapters 5 and 6 include diagrams which set out the annual flows of money and information between authorities and also, to and from central government.

Chapter 3

The first year of the system

Billing authorities

Payments to central government

3.1 *Technical Paper 1: Establishing the Baseline* explains that, prior to the start of the business rates retention scheme, a *set aside* amount will be determined and deducted from the *forecast national business rates* totals, in order to ensure that the scheme operates within the spending control totals for 2013-14 and 2014-15. It also explains that there will be further *adjustments* to remove sufficient funding for the New Homes Bonus, police authorities and, possibly, single purpose fire and rescue authorities. The *set aside* and *adjustments* will be apportioned between billing authorities on the basis of *proportionate shares* (*Technical Paper 2: Measuring Business Rates* explains how *forecast national business rates* and *proportionate shares* will be calculated).

3.2 Each billing authority's share of the *set aside* and *adjustments* will be expressed as a fixed sum of money, which it will need to pay to central government during the course of the year from the business rates that it collects.

3.3 The remainder of the *forecast national business rates* will be apportioned to each billing authority, in accordance with its *proportionate share.* This will be its *billing authority business rates baseline (pre-tier split)*.

3.4 As explained in *Technical Paper 3: Non-billing Authorities*, each *billing authority business rates baseline (pre-tier split)* will, as necessary, be apportioned between the billing authority and its non-billing authorities (county councils in two tier areas and, potentially, single purpose fire and rescue authorities). For a billing authority, the *tier-split shares* will determine what percentage of its *billing authority business rate baseline (pre-tier split)* it retains and what percentage it will need to pay to any non-billing authorities in its area.

3.5 Prior to the start of the scheme, the *tier-split shares*, applied to the *billing authority business rates baseline (pre-tier split)*, will determine, for each billing authority, its *individual authority business rates baseline*. This, when compared to its *baseline funding level*, will determine whether, and how much, each billing authority is required to pay to central government as a *tariff*, or receive from central government as a *top up*.

3.6 *Technical Paper 7: Revaluation and Transition* explains the Government's proposal to take transitional relief outside the main rates retention scheme and to provide for a series of separate *transitional adjustments* to ensure that no authority is financially better, or worse, off as a result of the transitional relief scheme. As explained in chapter 3, *transitional adjustments* will, initially, be based on the estimates provided in billing authorities' NNDR1 returns. The provisional *transitional adjustment* will need either to be paid to central government, or will entitle the billing authority to additional funding from central government. The provisional *transitional adjustment* will need to be shared between the billing authority and its non-billing authorities on the basis of *tier-split shares*. There will be a process of reconciliation once final outturn data is available.

3.7 Prior to the start of the first year of the scheme, each billing authority will be notified of:

- its *tier-split share* and the *tier-split shares* of its non-billing authorities
- the payments that are due to central government as its share of the *set aside* and *adjustments*
- any payments due to, or from, central government in respect of *transitional adjustments*; and
- its *tariff*, or *top up*

3.8 The last three of these will be expressed as a fixed sum. The Government proposes that this sum should be paid in 24 fortnightly payments (in the same way as payments are made under the current system).

TP4 Q1: Do you agree with the proposed approach for administering billing authorities' payments to central government?

Payments to non-billing authorities

3.9 In the first year of the scheme only, each non-billing authority's *tier-split share* of *the billing authority business rates baseline (pre-tier split)* will determine both its *individual authority business rates baseline* and the <u>gross payments</u> due to it from its billing authorities.

3.10 As explained in paragraph 3.6 above, a non-billing authority's *tier-split share* will also determine its share of any *transitional adjustment* and this will need to be netted off, or added to, the gross payments due from the billing authority.

3.11 We propose that the net payment (gross payment +/- the non-billing authority's share of any *transitional adjustment*) should be paid by billing authorities to non-billing authorities in 24 fortnightly payments.

3.12 For simplicity, we propose that billing authorities exclude from their payments to non-billing authorities all yield in respect of renewable energy projects and Enterprise Zones. There would be a year end reconciliation, as discussed below, to ensure that up to the baseline amounts of business rates from Enterprise Zones and from renewable energy projects is shared with non-billing authorities.

3.13 Under the proposals discussed in *Technical Paper 8: Renewable Energy,* and in line with the Government's commitment that business rates growth in Enterprise Zones should be retained by the local enterprise partnership, any growth above those baseline amounts would be retained in full by the billing authority.

TP4 Q2: Do you agree with the proposed approach for administering billing authorities' payments to non-billing authorities?

Year end reconciliation

3.14 No year end reconciliation will be needed in respect of billing authorities' contributions to the *set aside*, and *adjustments*, or in respect of *tariffs* and *top ups*, because, as explained in paragraph 3.8, these will be fixed sums.

3.15 The provisional *transitional adjustment*, which will be based on prior-year forecasts from billing authorities as explained above, will need to be reconciled with the amounts of transitional relief actually paid. This reconciliation would be carried out following receipt of audited outturn data provided in authorities' NNDR3 returns (as discussed in chapter 5). Any additional sums owed to the authority by central government would be netted off the payments due from the billing authority in a following year; and any sums due from the authority would be added to the following year's payments.

3.16 There will also need to be a reconciliation of the amounts paid from billing authorities to their non-billing authorities, to reflect the amounts of business rates actually collected by billing authorities and any reconciliation of the *transitional adjustment*. The Government would propose to leave it to billing and non-billing authorities to determine how any sums due from one to the other should be paid.

3.17 Similarly, there will also need to be a reconciliation to ensure non-billing authorities receive their share of up to the baseline amounts of business rates from renewable energy projects and Enterprise Zones. As discussed above, for simplicity's sake, we propose that non-billing authorities should receive their shares after the year's end, when it will be clear what rates have been collected from Enterprise Zones or in respect of renewable energy projects.

TP4 Q3: Do you agree with the proposals for year end reconciliation?

In-year changes

3.18 A system under which payments to non-billing authorities are set at the beginning of the year and only reconciled to actual collection rates at the year end would put the entire risk of in-year volatility on the shoulders of billing authorities.

3.19 The Government therefore proposes that there should be a means by which billing authorities can provide their non-billing authorities with amended payment schedules, reflecting in-year forecasts of the business rates they will collect.

3.20 These might work in the same way that authorities' NNDR2 data returns currently work for adjusting payments to the central rating pool. The Government would welcome the views of billing and non-billing authorities about the frequency of such changes and whether amended payment schedules should be agreed at fixed points throughout the financial year, or should only be triggered if the billing authority's forecast of business rates changes significantly in-year.

TP4 Q4: Do you agree with there should be a process for amending payments to non-billing authorities to reflect in-year changes, similar to the current NNDR2 returns?

TP4 Q5: If there is a process for amending payment schedules, do you think changes should be possible at fixed points throughout the year? How frequently should changes be possible?

TP4 Q6: Alternatively, do you think changes should only be possible if triggered by significant changes in business rates forecasts? What do you think should constitute a significant change?

Non-billing authorities

3.21 As explained in paragraph 3.9 above, non-billing authorities would receive a percentage share of the *billing authority business rates baseline (pre-tier split)*. For any non-billing authority, in the first year of the rates retention scheme, the aggregate of all its *tier-split shares*, applied to all its billing authorities' *billing authority business rates baseline (pre-tier split)* will produce both its *individual authority* *business rates baseline* and the amount of money that it could expect to receive from its billing authorities in that year.

3.22 A non-billing authority's *individual business rates baseline*, when compared to its *baseline funding level*, will determine whether, and how much, it will be required to pay to central government as a *tariff*, or receive from central government as a *top up.*

3.23 These payments will be directly paid to, or received from, central government by each non-billing authority. We propose that they should be paid in 24 fortnightly payments.

3.24 Prior to the first year of the scheme, therefore, each non-billing authority will be notified of:

- its *tier-split share* of each of its *billing authorities' business rates baselines (pre-tier split)*
- any payments that its billing authorities are due to make or receive from central government in respect of *transitional adjustments,* so that it can ensure these are properly reflected in the payment schedule provided by its billing authorities; and
- its *tariff*, or *top up*

TP4 Q7: Do you agree with the proposed approach for administering payments to and from non-billing authorities?

Chapter 4

Subsequent years

4.1 Arrangements for subsequent years would broadly mirror those in the first year.

4.2 Billing authorities' contributions to the *set aside* and *adjustments,* and their *tariffs* and *top ups* would be fixed between resets, unless changed for exceptional reasons (for example, boundary changes, which are discussed in *Technical Paper 1: Establishing the Baseline)*.

4.3 As explained above, and discussed in further detail in *Technical Paper 7: Revaluation and Transition*, we propose to make *transitional adjustments* to ensure that no authority is financially better, or worse, off as a result of the transitional relief scheme. The Government would notify authorities of any changes to their *transitional adjustments* for the forthcoming year.

4.4 Billing authorities and their non-billing authorities would, before the start of a financial year, need to agree a payments schedule. Unlike the first year of the scheme, this would be based on a forecast of the business rates that the billing authority expected to collect. As set out in chapter 5, we propose that this forecast should be based on their NNDR1 returns, which will need to be sent to both central government and non-billing authorities.

Levy and safety net payments

4.5 The Government will calculate any *levy* or *safety net* payments due from, or to, authorities in respect of a financial year, at the end of that year, on the basis of the outturn data provided in their NNDR3 returns. Chapter 6 discusses information requirements in further detail.

4.6 As explained in *Technical Paper 5: Tariff, Top up and Levy Options,* liability for the *levy* will be calculated on the basis of an authority's *pre-levy income* and eligibility for support from the *safety net* on the basis of its *post-levy income* in that year. An authority's *individual authority business rates* for any year will comprise its share of the local business rates income in that year, net of:

- reliefs and prior-year adjustments
- payments to central government in respect of the *set aside* and *adjustments*
- *transitional adjustments*
- new Enterprise Zone business rates in excess of the baseline Enterprise Zone business rates; and

- new renewable energy business rates in excess of the baseline renewable energy business rates

4.7 We propose that any sum due to, or from, authorities by way of *levy* or *safety net* would be paid as a single payment.

4.8 If the Government were to adopt the option of allowing *safety net* payments to be made in-year (as discussed in *Technical Paper 5: Tariff, Levy and Top Up Options*), *safety net* payments might, instead, be triggered in-year on the basis of an application submitted by either billing, or non-billing authorities. In this case, there would need to be an end-year reconciliation, with any adjustments paid to/from authorities as a single payment.

TP4 Q8: Do you agree with the proposed approach for establishing liability for the levy on the basis of an authority's pre-levy business rates income and eligibility for support from the safety net on the basis of an authority's post levy income?

Enterprise Zones and renewable energy projects

4.9 Growth in Enterprise Zones will need to be excluded from the levy calculation. But business rates collected in the area prior to the Enterprise Zone coming into existence will be part of the business rates retention scheme and, therefore, will "score" for the purposes of *tariffs*, *top-ups*, *levy* and *safety net* calculations.

4.10 We propose to establish a baseline for each Enterprise Zone by means of a spot assessment based upon the business rates yield on a defined day. Authorities would provide details of yield in the Enterprise Zone on 31 December 2011 in their NNDR1 data returns (the date already used for the purposes of NNDR1 returns). In future years, this baseline would be uprated for inflation, to take account of annual increases in the multiplier used to calculate business rates bills.

4.11 Similarly, business rates generated by new renewable energy projects coming into existence after 1 April 2013 will also be excluded from the levy calculation. *Technical Paper 8: Renewable Energy* discusses our proposed approach, under which business rates generated by projects in existence before 1 April 2013 would "score" for the purposes of tariffs, top-ups, levy and safety net calculations, but any later expansion of those projects would be treated like new renewable energy projects and would be excluded from the levy calculation.

4.12 So, like Enterprise Zones, we will need to establish the baseline renewable energy business rates, the business rates already generated by renewable energy projects prior to 1 April 2013.

4.13 The *individual authority business rates* (which, taken with the *top up* or *tariff* to get *pre-levy income*, will determine liability for the *levy* or eligibility for support from the *safety net*) will exclude business rates collected from Enterprise Zones or renewable energy projects that are above the relevant baselines.

Chapter 5

Making payments

5.1 As set out in the preceding chapters, we propose that, as with the current system, payments (with the exception of any *levy* and *safety net* payments) are made in 24 fortnightly instalments. This includes payments to or from central government; and payments from billing authorities to precepting authorities.

5.2 At the start of each year, central government would provide all authorities with a statement of account itemising all direct transactions between authorities and central government and providing a schedule of payments. At the end of each year, central government will provide a final account. Central government's accounts will be audited by the National Audit Office.

5.3 A billing authority's account with central government would therefore include the following:

- its share of the *set aside*
- its share of *adjustments* (to fund, for example the New Homes Bonus and police authorities)
- either a *tariff* payment to central government or a *top up* payment from central government
- *transitional adjustments* either to or from central government; and
- *levy* or *safety net* payments

5.4 Non-billing authorities' accounts with central government will only include:

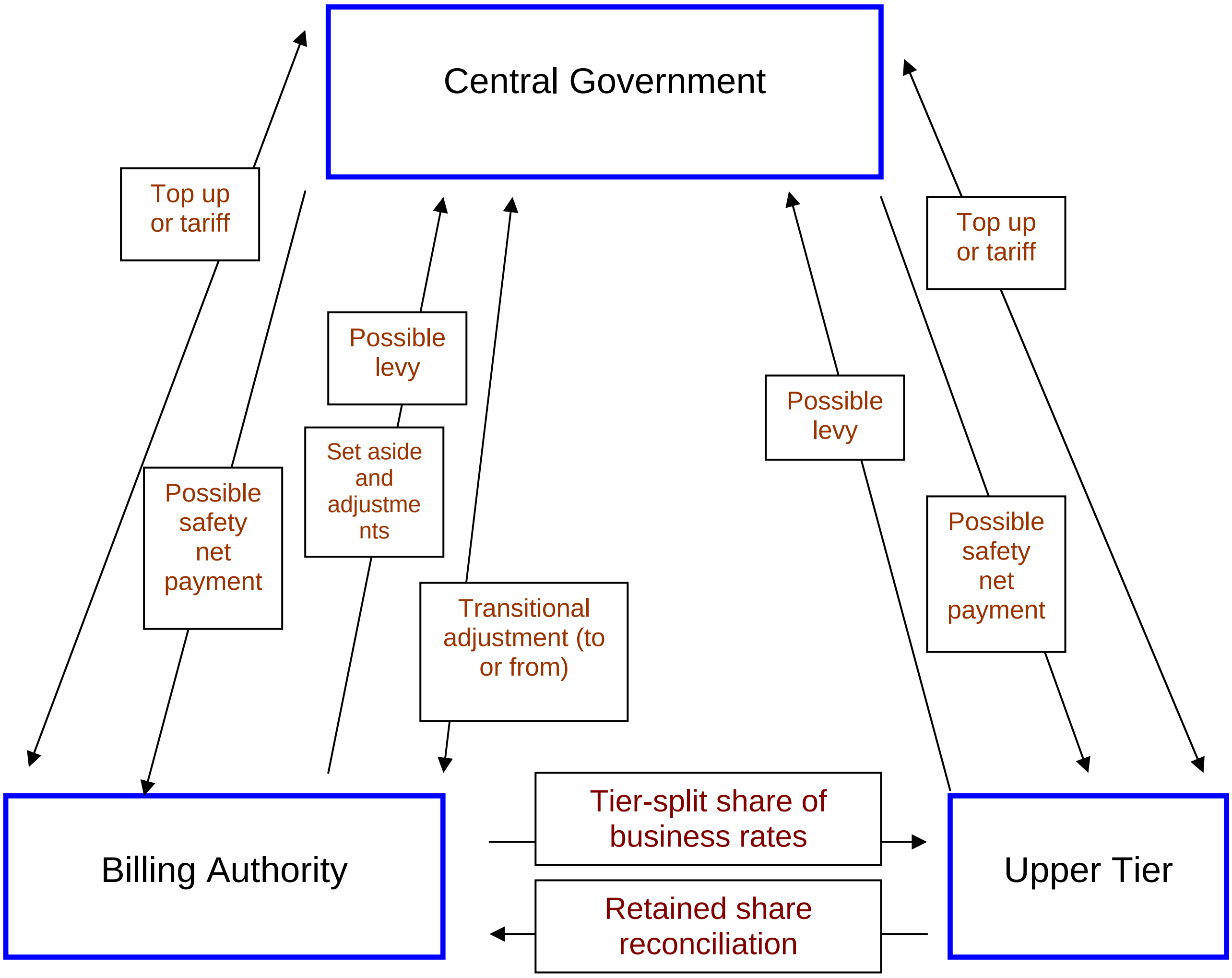
- either *tariff* payments to central government or *top up* payments from central government
- *transitional adjustments* either to or from central government; and
- *levy* or *safety net* payments

5.5 Billing authorities will provide precepting authorities with a schedule of payments. They will then provide end-year outturns to both central government and non-billing authorities.

5.6 Billing authorities will be required to audit end-year outturn statements in the same way that their current NNDR3 returns are audited.

5.7 We may need to make changes to the secondary legislation governing collection fund and general fund procedures to take account of the proposed changes in this paper.

5.8 The diagram below sets out the money flows under the proposed scheme.

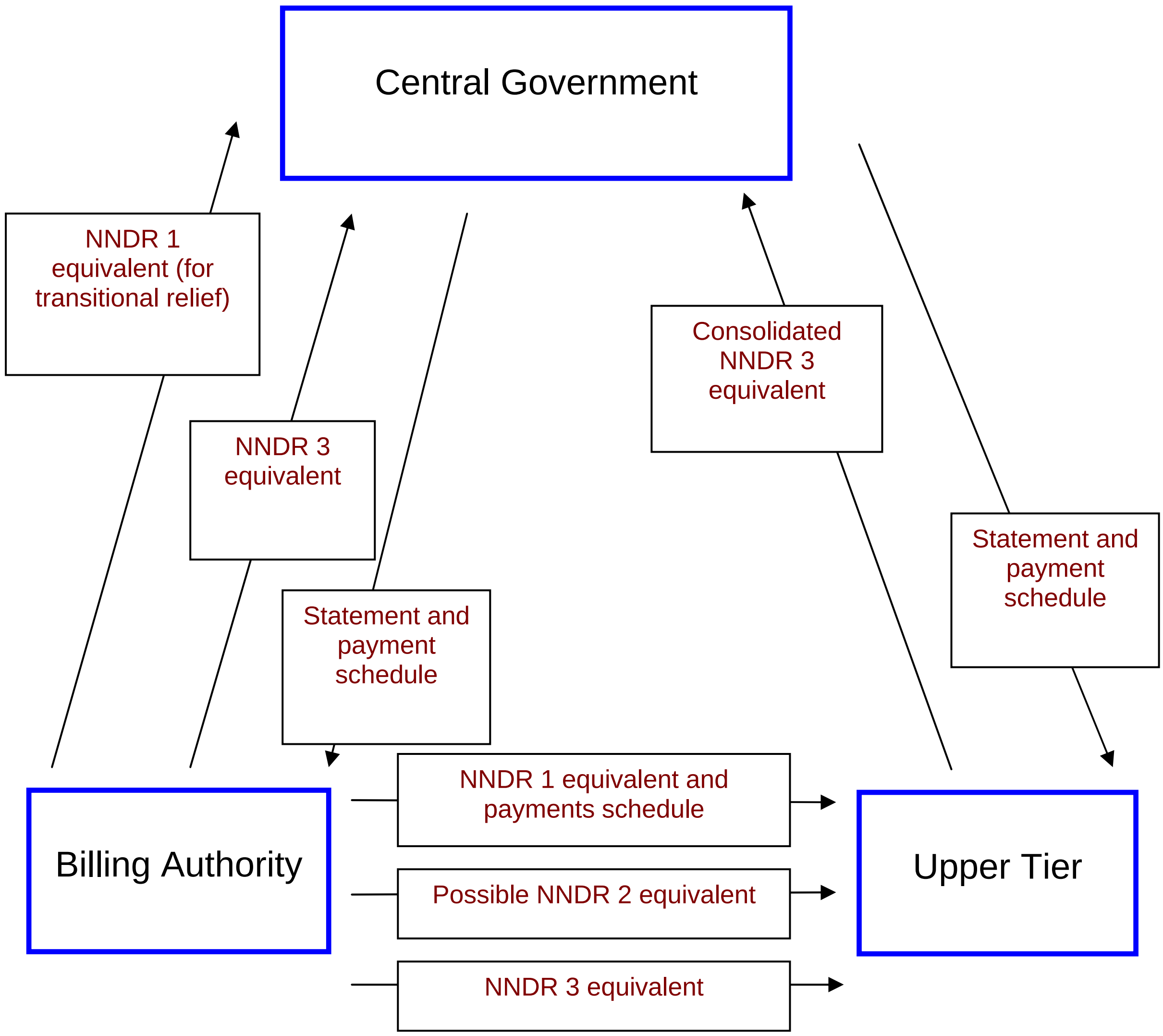


Chapter 6

Information

6.1 We envisage that the information requirements set out in this paper will be provided through the NNDR1, NNDR2 and NNDR3 returns with which billing authorities are already familiar, although the information requirements on these forms may need to change. We will discuss this separately with the Central and Local Government Information Partnership – Finance (CLIP-F).

6.2 The diagram below sets out the information flows under the proposed scheme.



Annex A

The annual cycle

Pre – year (to fit in with budget setting cycle)	Billing authorities send central government estimates of yield (NNDR1 equivalent) with details of transitional relief cost/surplus. Central government notifies all tiers of authorities of the amount they will receive or have to pay to central government. For 2013-14 central government will notify billing authorities of upper tier shares. For 2014-15 billing authorities will calculate and notify upper tier authorities of their shares based on NNDR1 equivalent.
In-year	Central government either pays or receives payments from all tiers in 24 fortnightly payments (see chapter 5 for details). Billing authority makes payments of shares to upper tier authorities in 24 fortnightly payments. Possible NNDR2 adjustments of retained shares.
Post-year	Billing authorities send central government outturn data (NNDR3 equivalent) for the purposes of reconciling transitional adjustments and any levy payments made. Billing authorities send outturn data to precepting authorities for the purposes of reconciling non-billing authority shares.

Annex B

Business Rates Retention: Glossary of technical terms

Adjustments
After deducting the *set aside* from the *forecast national business rates* further adjustments will be made to fund the New Homes Bonus, police authorities and potentially single purpose fire and rescue authorities.

Reference: *Technical Paper 1: Establishing the Baseline*, Chapter 4

Allowable deductions
A deduction made to a billing authority's business rates income, when calculating its *proportionate share*. Examples of where allowable deductions will be made are for rate reliefs and cost of collections.

Reference: *Technical Paper 2: Measuring Business Rates*, Chapter 4

Banded levy
Authorities assigned to their different levy bands with different pence in the pound levy rates based on the ratio of their *individual authority business rates baseline* and their *baseline funding level*.

Reference: *Technical Paper 5: Tariff, Top Up and Levy Options*, Chapter 4

Baseline funding level (or **individual authority baseline funding level**)
A fair starting point based on formula grant distribution, within the overall expenditure controls set out in Spending Review 2010.

Reference: *Technical Paper 1: Establishing the Baseline*, Chapter 5

Billing authority business rates baseline (pre-tier split)
Derived by dividing the *national business rates baseline* between *billing authorities* on the basis of their *proportionate shares*.

Reference: *Technical Paper 2: Measuring Business Rates*, Chapter 5

Flat rate levy
The same pence in the pound levy rate for all authorities.

Reference: *Technical Paper 5: Tariff, Top Up and Levy Options*, Chapter 4

Forecast national business rates
Forecast of national business rates for England in 2013/14 and 2014/15. Based on the 2012/13 national non-domestic multiplier, uprated for *Retail Prices Index* and the latest published information from the national non-domestic rates returns.

Reference: *Technical Paper 2: Measuring Business Rates*, Chapter 3

Gearing effect
The relationship between *individual authority business rates baseline* and the *individual authority baseline funding level*.

Reference: *Technical Paper 5: Tariff, Top Up and Levy Options*, Chapter 2

Individual authority business rates baseline
Derived by apportioning the *billing authority business rates baseline (pre-tier split)* between billing and non-billing authorities on the basis of *tier splits*.

Reference: *Technical Paper 2: Measuring Business Rates*, Chapter 5

Individual authority business rates
The amount of business rates income which each authority receives before payment of *tariffs and top ups*.

Reference: *Technical Paper 2: Measuring Business Rates*, Chapter 5

Interactive Calculator
Enables users to explore the principal features of the proposed rate retention scheme by entering their own inputs and varying components.

Reference: *Technical Paper 5: Tariff, Top Up and Levy Options*, Chapter 7

Levy
To manage the possibility that some local authorities could see disproportionate financial gains, the *levy* will recoup a share of this disproportionate benefit. Applied to the change in *pre-levy income* (either all growth or growth above *Retail Prices Index*), as measured against the *individual authority baseline funding level*.

Reference: *Technical Paper 5: Tariff, Top Up and Levy Options*, Chapter 4

National business rates baseline
The *forecast national business rates* less *set aside* and *adjustments*.

Reference: *Technical Paper 1: Establishing the Baseline*, Chapter 5 and *Technical Paper 2: Measuring Business Rates*, Chapter 5

Post-levy income
Individual authority business rates minus/plus the *tariff* or *top up*, minus any *levy*.

Reference: *Technical Paper 5: Tariff, Top Up and Levy Options*, Chapter 3

Pre-levy income
Individual authority business rates minus/plus the *tariff or top up*.

Reference: *Technical Paper 5: Tariff, Top Up and Levy Options*, Chapter 3

Proportional levy
Individual pence in the pound levy rate for each authority so that percentage growth in *retained income* is proportional to growth in *individual authority business rates*.

Reference: *Technical Paper 5: Tariff, Top Up and Levy Options*, Chapter 4

Proportionate shares
Used to apportion the *set aside*, *adjustments* and *national business rates baseline* between billing authorities. Equals a billing authority's business rates income (after *allowable deductions*) as a proportion of total business rates yield (after *allowable deductions* and exclusive of the impact of transitional relief).

Reference: *Technical Paper 2: Measuring Business Rates*, Chapter 4

Retail Prices Index
A measure of inflation in the UK.

Reference: *Technical Paper 5: Tariff, Top Up and Levy Options*, Chapter 2

Retained income
Individual authority business rates minus/plus *tariff* or *top up*, minus any *levy*, plus any *safety net* payment.

Reference: *Technical Paper 5: Tariff, Top Up and Levy Options*, Chapter 4

Revaluation adjustment
An adjustment to tariffs and top ups to ensure that authorities do not experience gains or losses as a consequence of a revaluation.

Reference: *Technical Paper 7: Revaluation and Transition*, Chapter 3

Safety net
The safety net offers: i) annual protection against a decline in *retained income* and ii) protection against a decline in *retained income* relative to the *individual authority baseline funding level*.

Reference: *Technical Paper 5: Tariff, Top Up and Levy Options*, Chapter 5

Set aside
The share of the *forecast national business rates* that will be set aside to meet the overall expenditure controls set out in Spending Review 2010. The set aside will be apportioned between billing authorities and non-billing authorities on the basis of their *proportionate shares*.

Reference: *Technical Paper 1: Establishing the Baseline*, Chapter 3

Tier splits or **tier-split shares**
Applied to *billing authority business rates baseline (pre-tier split)* to establish the *individual authority business rates baseline.*

Reference: *Technical Paper 3: Non-Billing Authorities*, Chapter 3

Tariffs and top ups
Assigned to a local authority to achieve a fair starting point. An authority will pay a *tariff* if their *individual authority business rate baseline* is more than their *baseline funding level*. An authority will receive a *top up* if their *individual authority business rate baseline* is less than their *individual authority baseline funding level*.

Reference: *Technical Paper 5: Tariff, Top Up and Levy Options*, Chapter 3

Transitional adjustment
An adjustment to ensure that authorities do not experience gains or losses as a consequence of granting transitional relief.

Reference: *Technical Paper 7: Revaluation and Transition*, Chapter 4

Volatility
The degree to which individual authority business rates in a particular area may change.

Reference: *Technical Paper 6: Volatility*, Chapter 3

Department for Communities and Local Government

ISBN: 978 1 4098 3090 0