Alternative Model: Update on Adjustment Factors and reliefs

1. Introduction

1.1 This paper continues previous Working Group discussions on the setting of Adjustment Factors (AFs). As requested by members of the Working Group, the paper provides data analysis on the historic pattern of reliefs in the business rates retention system since 2013/14.

1.2 The analysis supports the previous conclusion that a national adjustment factor set for a fixed period of time would provide the highest levels of fiscal certainty, administrative simplicity and fairness under the alternative arrangements. Apart from these policy outcomes, such arrangements would also benefit the highest number of authorities in light of the available data.

2. Background

2.1 The Working Group has previously established that under the alternative model growth should be measured before accounting adjustments for provisions are made – i.e. at the level of net rates payable (NRP) or gross rates payable (GRP) – so as to prevent these from impacting underlying growth in the system. It also indicated of its preference for growth to be measured roughly at the level of NRP as otherwise the amount of growth in the system would be exaggerated due to reliefs being included in the growth measurement.

2.2 The Working Group has also established that the rateable value (RV) data option for measuring growth could require an AF to convert gross rates payable (GRP) to net rates payable (NRP). It has been suggested that this could be done by using the ratio of NRP to GRP to set the AF. There are different options for the setting of adjustment factors, including whether these should be set nationally or locally, and whether they should be set for a fixed period of time or let float annually in line with the changing pattern of reliefs.

2.3 The different options might reflect different policy objectives. Arguably, a national factor that was fixed for a period of time might offer the best combination of certainty and simplicity.

2.4 New data on the ratio of net to gross rates payable will be published at the local level annually, which would permit the yearly recalculation of LA-specific adjustment factors. However, this will not necessarily result in "more accurate" growth payments; it is critically dependent on the assumption that new rateable value will be subject to reliefs in the same proportion as the "stock" of rateable value recorded on the previous year's NNDR form.

2.5 Further to this, the same AF for all local authorities would ensure that every authority benefits equally from the same type of business rates growth; it avoids the situation where two local authorities have identical new RV, but have different calculated AFs and therefore different growth payments. The analysis below may suggest that this difference in local ratios of net to gross rates payable is mainly driven by mandatory reliefs – over which authorities have no control.

2.6 The Working Group has sought to further understand the pattern of reliefs at the local level. This paper uses historical data on reliefs to determine the extent to which variation in reliefs would impact on individual authorities.

3. Analysis

3.1 MHCLG have analysed reliefs data from NNDR forms since the business rates retention system was set up in 2013/14. The data sets analysed include NNDR1 data from 2013/14 to 2019/20, and NNDR3 data from the years available, i.e. from 2013/14 to 2017/18.

3.2 The types of reliefs analysed include:

a. Mandatory reliefs
b. Unoccupied Property relief
c. Discretionary reliefs
d. Discretionary reliefs (S.31 funded)

3.3 Transitional relief was left out of the analysis given that it does not work on the same basis as other reliefs (see also the technical paper on 'Transitional reliefs, discretionary reliefs and the adjustment factor' from Working Group meeting of 24 October 2019).

3.4 Table 1 summarises reliefs as a percentage of the gross rates payable at the national level:

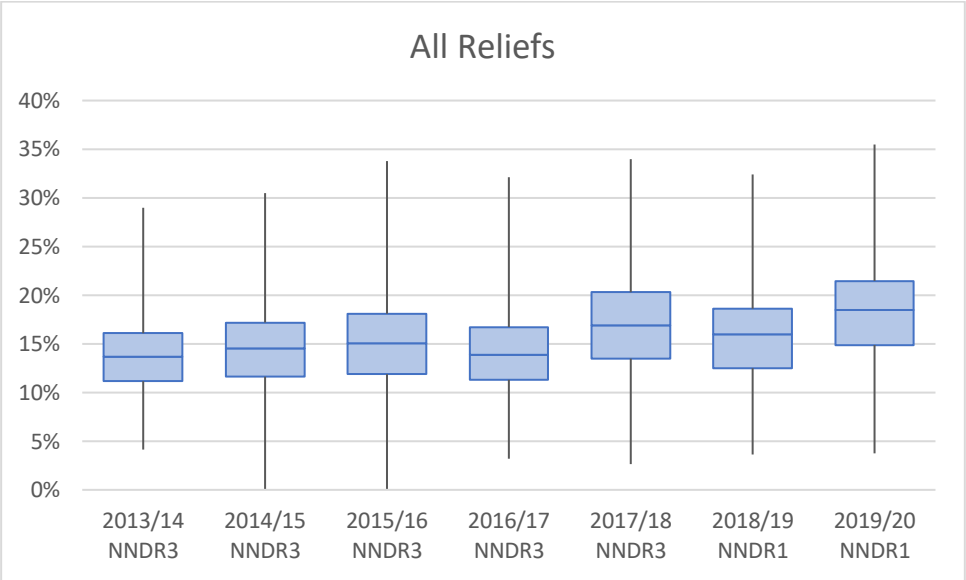
a. Mandatory reliefs is the biggest class of reliefs compared to the gross rates payable.
b. Discretionary reliefs is the smallest class of reliefs compared to the gross rates payable.
c. There is a very small variation between the forecast of reliefs (NNDR1) and the outturn (NNDR3). The total reliefs outturn tends to be higher than the forecast.
d. The percentage of total reliefs granted increased from 2017/18 due to the changes of small business rates relief thresholds.

Table 1: Reliefs as a percentage of GRP at the national level

As % of GRP		2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Mandatory Reliefs	*NNDR1*	*10%*	*7%*	*7%*	*8%*	*9%*	*10%*	*10%*
	NNDR3	8%	8%	8%	8%	10%		
Unoccupied Prop	*NNDR1*		*4%*	*3%*	*3%*	*3%*	*3%*	*3%*
	NNDR3	4%	4%	4%	4%	3%		
Discretionary Reliefs	*NNDR1*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
	NNDR3	0%	0%	0%	0%	0%		
Discretionary Reliefs (S31)	*NNDR1*		*1%*	*1%*	*0%*	*0%*	*0%*	*2%*
	NNDR3	0%	1%	1%	0%	1%		
Total reliefs	***NNDR1***	**11%**	**13%**	**12%**	**11%**	**13%**	**13%**	**16%**
	NNDR3	**12%**	**13%**	**13%**	**12%**	**15%**		

3.5 The plot below illustrates the distribution of reliefs over years and variation across local authorities. The plot demonstrates how, in 2013/14 as an example, the minimum value of total reliefs awarded at an individual authority was 4% and the maximum 29%. The majority of local authorities were awarding a total level of reliefs that amounted from 11% to 16%.

Plot 1: Distribution of reliefs



3.6 Tables 2 summarises the number of local authorities where the share of reliefs (as a proportion of gross rates payable) is higher/lower compared to the national level using NNDR1 and NNDR3 data, where available. National level share in each class of reliefs is the sum of all local authorities' reliefs over the sum of all local authorities' gross rates payable.

Table 2: Share of individual authority reliefs in relation to national level reliefs

		NNDR3					NNDR1	
No of LAs		2013/14	2014/15[1]	2015/16[2,3]	2016/17	2017/18	2018/19	2019/20
Mandatory Reliefs	Higher	217	214	213	219	226	231	226
	Lower	100	102	102	98	91	86	91
Unoccupied Prop	Higher	99	100	81	82	87	83	78
	Lower	218	216	234	235	230	234	239
Discretionary Reliefs	Higher	160	158	147	151	154	152	149
	Lower	157	158	168	166	163	165	168
Discretionary Reliefs (S31)	Higher	38	203	206	131	148	148	198
	Lower	279	113	109	186	169	169	119
Total	**Higher**	207	207	208	206	224	222	222
	Lower	110	109	107	111	93	95	95

[1] Dacorum not included - reported 0 GRP

[2] South Norfolk not included - reported 0 GRP

[3] Hartlepool not included - negative GRP

3.7 Key points from Table 2:

a. Majority of local authorities have a higher proportion of total reliefs compared to the national level.
b. More authorities have a higher proportion of mandatory reliefs compared to the national level in each year.
c. More authorities have a lower proportion of unoccupied property reliefs compared to the national level in each year.
d. The patterns are the same at NNDR1 and NNDR3 stages.

3.8 Table 3 shows total reliefs by the class of local authority. The key points are:

a. Metropolitan authorities grant the highest proportion of reliefs compared to other classes.
b. Inner London Boroughs grant the lowest proportion of reliefs compared to other classes.

Table 3: Total reliefs by the class of local authority

	NNDR3					NNDR1	
	2013/14	2014/15[1]	2015/16[2]	2016/17	2017/18	2018/19	2019/20
ILB	8%	9%	9%	8%	9%	8%	10%
OLB	11%	12%	12%	11%	13%	12%	15%
Met	14%	15%	16%	15%	17%	17%	19%
SD	13%	14%	14%	13%	17%	15%	18%
UA	13%	14%	15%	13%	16%	15%	17%
Total	**12%**	**13%**	**13%**	**12%**	**15%**	**13%**	**16%**

[1] Dacorum not included - reported 0 GRP

[2] South Norfolk not included - reported 0 GRP

[3] Hartlepool not included - negative GRP

3.9 Table 4 summarises the variation of reliefs shares in each class.

Table 4: Variation in total reliefs by the class of local authority

	NNDR3										NNDR1			
	2013/14		2014/15[1]		2015/16[2,3]		2016/17		2017/18		2018/19		2019/20	
	min	max	min	max	min	max	min	max	min	max	min	max	min	max
ILB	4%	18%	4%	20%	4%	21%	4%	19%	3%	20%	4%	18%	4%	22%
OLB	5%	17%	5%	19%	4%	19%	4%	19%	5%	18%	6%	18%	6%	23%
Met	8%	19%	8%	21%	8%	23%	7%	21%	7%	25%	8%	25%	9%	27%
SD	5%	29%	4%	30%	4%	34%	3%	32%	3%	34%	5%	32%	5%	35%
UA	5%	22%	5%	23%	7%	24%	6%	31%	8%	28%	5%	26%	7%	30%

[1] Dacorum not included - reported 0 GRP

[2] South Norfolk not included - reported 0 GRP

[3] Hartlepool not included - negative GRP

3.10 Table 5 summarises total reliefs by region:

a. South West authorities grant the highest proportion of reliefs compared to other regions.
b. London Boroughs grant the lowest proportion of reliefs compared to other regions.

Table 5: Total reliefs by region

	NNDR3					NNDR1	
	2013/14	2014/15[1]	2015/16[2]	2016/17	2017/18	2018/19	2019/20
EM	14%	14%	14%	13%	16%	15%	17%
E	13%	14%	14%	13%	16%	15%	17%
L	9%	10%	10%	9%	10%	9%	11%
NE	13%	14%	16%	15%	18%	17%	19%
NW	14%	15%	15%	14%	18%	16%	18%
SE	12%	13%	13%	12%	15%	13%	16%
SW	15%	16%	16%	15%	19%	18%	20%
WM	13%	14%	15%	13%	16%	16%	18%
YH	13%	15%	16%	14%	18%	17%	19%
Total	12%	13%	13%	12%	15%	13%	16%

4. Discussion

4.1 As demonstrated in Table 1, the total amount of reliefs in the system between 2013/14 and 2017/18 has increased from 11% to 13% as per available NNDR3 data. This indicates that at **national level reliefs have remained relatively stable since the current system set-up.**

4.2 However, variation in reliefs at local authority level can be larger than this, as demonstrated by Plot 1 and Tables 3-5. **Local level variation is likely to arise from factors outside of the authorities' own control** given the negligible amount of discretionary relief in the system (see Table 1).

4.3 As per Table 2, **more local authorities have a higher proportion of total reliefs compared to the national level, and more authorities also have a higher proportion of mandatory reliefs compared to the national level in each year.**

4.4 The findings in paragraphs 4.1-4.3 support the previous recommendation that adjustment factors would be best set nationally for a fixed period of time with more authorities set to benefit from the arrangement. This approach would provide more fiscal certainty and simplify system administration in relation to local level adjustment factors that were floating year-on-year.

4.5 A national level adjustment factor could also help avoid a situation where two local authorities open exactly the same business, but receive different growth rewards. This would occur if local level adjustment factors were used instead of one national factor.