Alternative Business Rates Retention Illustrative Model: Guidance Notes

August 2019

Overview

- MHCLG proposed an alternative Business Rates Retention (BRR) system in the December 2018 consultation paper. These guidance notes are to support an excel based illustrative model that shows how an alternative system could work.

- The notes first explain how the current system (in place since 2013/14) operates before going on to explain how the alternative system could potentially operate.

- In order to show how an alternative system could work, it uses local authorities' actual and forecast business rate income for the period 2013/14 to 2019/20.

- It is important to note that there is limited information regarding the alternative system, particularly around how authorities may be rewarded under the scheme. The illustrative model is based on a simplified interpretation of the MHCLG proposals. The model is **not showing** how resource levels would have actually be distributed under the alternative system, as it is not yet known how the reward mechanism would operate. The mechanism chosen within this model has reversed out appeals provision movements; it was not possible to reverse out the cost of actual appeals paid.

Current Business Rates Retention system - Outline (1)

- The current BRR system was introduced in 2013/14 and will run to at least the end of 2019/20. Key aspects of the current system are:

- The level of resources received by an authority equals Baseline Need, if the amount business rates is collected equals the (fixed) target amount (NNDR Baseline).

- Variances in the amount of business rates collected to the target amount can lead to higher or lower levels of resources being "earned" in year. These variances can be limited by a levy or a safety net (to reduce excessive growth / losses) each year.

- The resources earned each year are subject to local authority decisions regarding: the amount that needed to be put aside for existing (outstanding) and future appeals against Rateable Value) and the in year cost of successful appeals.

- Local authorities have each received an allowance to pay for appeals, (based on the forecast national average), with variances to this resulting in more or less resources locally.

Current Business Rates Retention system - Outline (2)

- The resources received each year are dependent on the amount set out in authorities NNDR1 forms (forecast business rates received) with variances (between resources received and resources earned) dealt with through a collection fund system that unwinds within one or two years, depending on when variances are identified. The resources received each year potentially include levy and safety net payments.

- In order that central government policy changes (e.g. changes to Small Business Rates Relief) do not adversely impact on business rates income, Section 31 (S31) grant is paid to offset changes that would alter local authority business rates income.

- Gains / losses in Rateable Value from Revaluation 2017 were reversed out, in order to make Revaluation 2017 revenue neutral.

Alternative Business Rates Retention system – Overview

- In the December 2018 consultation paper, MHCLG suggested altering the current BRR system. This "alternative" system would still include many of the features of the current system e.g. tier splits, allow a move to 75%, a safety net and creating an incentive for growth. It may also include features such as a levy (to stop windfall / excessive gains) and pooling.

- The areas where it would be looking to change / (and potentially) improve the BRR system are:

  - To nationalise appeals risk

  - To reduce / remove the need for S31 grants to reflect policy changes

  - To simplify changes following future revaluations

- And depending on what method is used to determine "growth*"

  - To potentially remove losses that alter income but not Rateable Value (e.g. similar situations to the academies issue)

  - Allow a single point in time (e.g. RV at the start of the period) to measure growth against (rather than an average based on previous years)

The term growth is used, but this could be positive or a negative figure i.e. it includes potentially losing resources through decline.

Alternative Business Rates Retention system – How it might work

- Based on the consultation paper / presentations from MHCLG, it would appear that the Alternative system would be based on two blocks, these being along the lines of:

- **Block 1** – This block would deliver Baseline Need to local authorities, through a flexible Top Up / Tariff approach

- **Block 2** – Would determine the growth in business rates locally and either require a payment to or from MHCLG to reward growth or reflect decline.

- Both of these blocks are explained in greater detail below.

- It is worth noting that the outcome of these two blocks in combination will be the same as the current scheme i.e. authorities' resources can be at, above or below their Baseline Need amount, depending upon the level of growth / decline in business rates locally.

Alternative Business Rates Retention system – Block 1

- **Block 1** – This block would deliver Baseline Need funding to local authorities, through a flexible Top Up / Tariff approach

- Prior to the introduction of business rates, local authorities received a fixed grant amount (Formula Grant) via the local government finance settlement for the forthcoming year. For example, for 2012/13, this would have been provisionally announced in December 2011 and confirmed in late January 2012.

- Block 1 could potentially provide this level of certainty. For example the 2020/21 Baseline Need amount provisionally announced in December 2019, local authorities completing NNDR1 in January 2020 and top up / (tariff) amounts confirmed after the final settlement, to enable net resources received to equal Baseline Need.

- The following slide provides an example of how this would work….

Alternative Business Rates Retention system – Block 1

- **Barchester** has a Baseline Need figure of £5m announced at the provisional settlement (and confirmed at the final settlement). It does not have a NNDR Baseline or Top Up / (Tariff) amount announced, as they are no longer relevant (for Block 1).

- It completes it NNDR1 and is forecast that it will receive £11m in business rates income (local share). There are no S31 grant payments to consider, and the £11m is net of any previous years deficits or surpluses* and any adjustment made for appeals.

- It is therefore determined that a Tariff of £6m is required, in order that Barchester receives its £5m Baseline Need funding.

    £11m forecast NNDR Income

Less   £5m Baseline Need

Equals   £6m Tariff

It is expected that surpluses or deficits that would be brought forward from 2018/19 and 2019/20 into 2020/21 would be received / paid for in line with the local share for the relevant year.

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Alternative Business Rates Retention system – Block 2

- **Block 2** – Would determine the growth in business rates locally and either require a payment to or from MHCLG to reward growth or reflect decline.

- **Based on a methodology that is yet to be determined,** each authority would be assessed to determine if it had achieved growth (or decline).

- For example, in Barchester's case, it might be that it increased business rates income locally (assuming income was the measure) by £0.25m (local share). This would mean it would be due a payment of £0.25m.

- Given the methodology for determining the growth is not yet determined, it is not possible to determine the timing (or accounting) of the £0.25m. However, if it was assessed at year end, either on NNDR3 or closing RV for example, the payment could potentially made and accounted for in a similar way to how levy payments/ pilot gains are dealt with currently.

- So, in summary, the transactions under the scheme for Barchester could be as simple as:

  - Pay £11m into the General Fund from the Collection Fund

  - Pay £6m Tariff to MHCLG

  - Receive £0.25m payment from MHCLG to reflect the growth achieved

The Model – Overview

- The Model is based on 2013/14 to 2017/18 NNDR3 and 2018/19 and 2019/20 NNDR1 data for individual authorities.

- The Model has three tabs in excel, these being:

  Input – for the user to select an authority and alter certain variables

  Output – to see the forecast resources for the alternative approach

  Summary – Summary results by authority type and area

- Further details on each of these tabs is shown overleaf.

| Input | Output | **Summary** | |
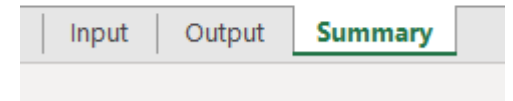
The Model – Input sheet

- The input sheet allows the user to:

(1) Select an authority, the data for the authority selected is then shown in the output tab. The user selects an authority through a drop down menu.

(2) Alter the level of business rates income that is used in the alternative business rates system. This, potentially, could allow the user to alter the cost of appeals locally e.g. by removing appeals paid out or add. The default level will be the Actual Business Rates income (inc. S31 Grant). The required new level of income should be inserted in the purple cells.

(3) The level of safety net for the alternative system (the default is 92.5%). The required new amount should be inserted in the purple cells.

The Model – Output sheet (2)

- The table in the output sheet concerns the alternative system and shows:

(1) How the Tariff / Top Up for the authority is determined (Block 1)

(2) The calculation for the assessed level of growth (Block 2)

(3) Block 1 + Block 2

(4) The safety net calculation.

(5) The resources received (also expressed as a % variance to Baseline Need).

Alternative Model	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	
Block 1: Baseline Need									
(a) NNDR1 Income		6.5	7.2	7.3	8.0	7.8	7.9	3.4	
(b) Baseline Need		**1.5**	**1.6**	**1.6**	**1.6**	**1.7**	**1.7**	**1.7**	1
(c) (b - a) Top Up / (Tariff)		(5.0)	(5.6)	(5.7)	(6.4)	(6.2)	(6.2)	(1.7)	
Block 2: Growth Assessment									
(d) Growth Baseline	5.9	6.0	6.1	6.2	6.3	6.4	6.6	6.8	
(e) Appeals reversal (provisions only, not the actual cost)		0.5	(0.1)	0.3	0.0	(0.3)			
(f) (d - e) Appeals Adjusted Growth Baseline		5.5	6.2	5.9	6.3	6.7	6.6	6.8	
									2
(g) Total Income (from NNDR3)*		6.5	7.3	7.7	7.3	7.7	7.6	7.8	
(h) Revaluation Adjustment						0.5	0.5	0.6	
(i) (g + h) Adjusted Income		6.5	7.3	7.7	7.3	8.2	8.2	8.4	
(j) (i - f) Assessed Growth		**1.0**	**1.1**	**1.8**	**1.0**	**1.5**	**1.5**	**1.6**	
(k) (b + j) Block 1 + Block 2		**2.6**	**2.7**	**3.4**	**2.6**	**3.2**	**3.2**	**3.3**	3
(l) Safety Net Level		1.4	1.5	1.5	1.5	1.5	1.6	1.6	4
(m) Safety Net Payment Due		-	-	-	-	-	-	-	
(n) (k + m) Resources due after safety net adjustment		**2.6**	**2.7**	**3.4**	**2.6**	**3.2**	**3.2**	**3.3**	5
Variance to Baseline Need %		65.3%	72.5%	109.6%	61.4%	91.1%	91.1%	91.1%	

The Model – Output sheet (3)

- At the bottom, the output worksheet shows a summary of the assumptions made in the Input sheet.

Assumptions Summary

Alternative Model: Business Rates Income

	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Business Rates Income	6.5	7.2	7.3	8.0	7.8	7.9	3.4

Alternative Model: Safety Net Level

	2013/14 %	2014/15 %	2015/16 %	2016/17 %	2017/18 %	2018/19 %	2019/20 %
Safety Net Level	92.5%	92.5%	92.5%	92.5%	92.5%	92.5%	92.5%

The Model – Output sheet (4)

- Finally, the sheet shows two charts, summarising the outputs from the table; these being:
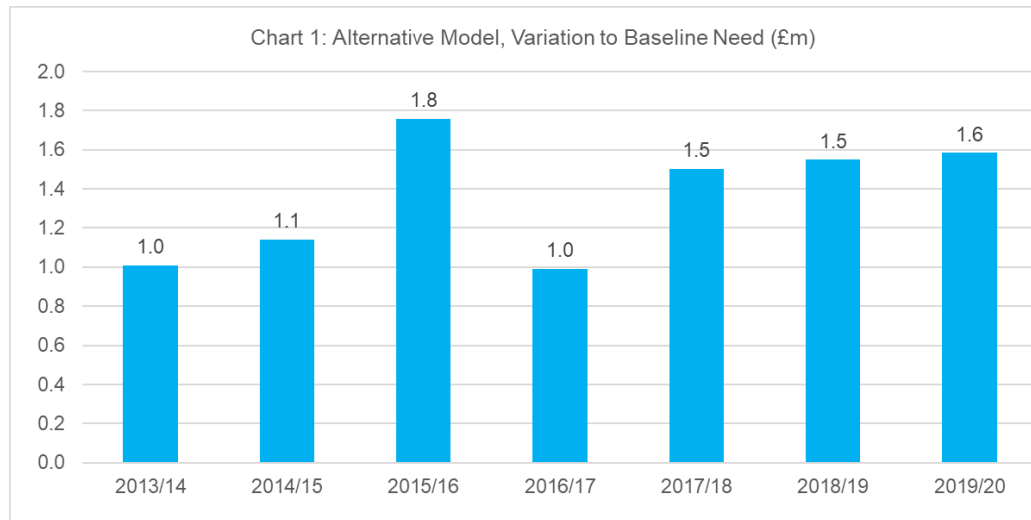
Chart 1 – Variation to Baseline Need (£m)

Chart 2 – Variation to Baseline Need (%)

Chart 1: Alternative Model, Variation to Baseline Need (£m)

Year	Value
2013/14	1.0
2014/15	1.1
2015/16	1.8
2016/17	1.0
2017/18	1.5
2018/19	1.5
2019/20	1.6

Chart 2 : Alternative Model, Variation to Baseline Need %

Year	Value
2013/14	65%
2014/15	73%
2015/16	110%
2016/17	61%
2017/18	91%
2018/19	91%
2019/20	91%
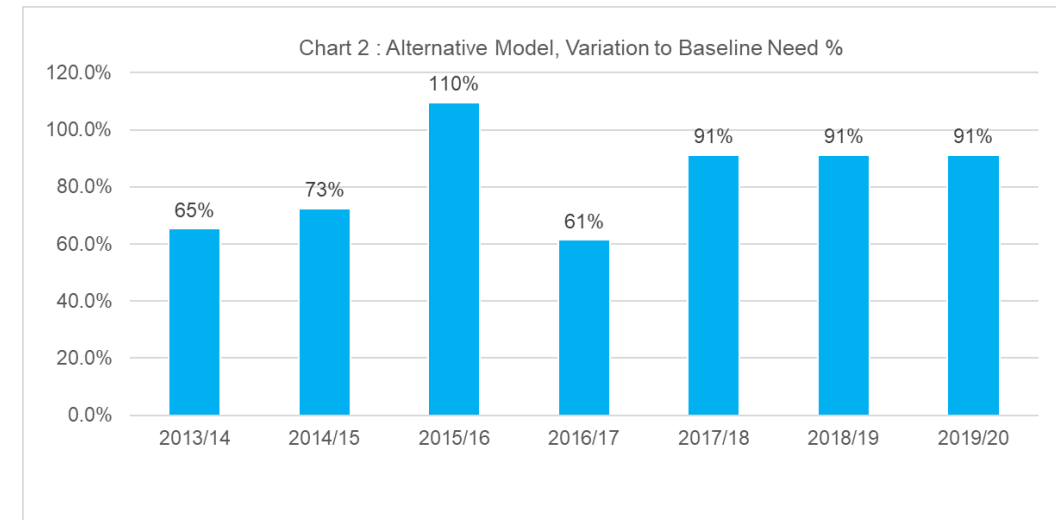
The Model – Summary sheet

- The summary sheet shows a table that shows, by authority type and by region, the resources received compared to baseline need for the alternative system (as £m and as a %).

Amount above Baseline Need, by authority type, using the Alternative system

Alternative	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m		Alternative	2013/14 %	2014/15 %	2015/16 %	2016/17 %	2017/18 %	2018/19 %	2019/20 %
Shire districts	127.9	118.7	163.2	163.7	332.7	342.7	350.5		Shire districts	26.1%	23.8%	32.1%	31.9%	63.6%	60.7%	61.7%
Shire counties	28.1	24.9	32.6	34.9	76.4	78.7	80.5		Shire counties	1.2%	1.1%	1.4%	1.4%	3.1%	2.9%	3.0%
Shire unitaries	108.6	97.9	109.2	133.9	229.1	236.0	241.3		Shire unitaries	5.1%	4.5%	4.9%	6.0%	9.4%	9.1%	9.2%
Metropolitan Districts	79.2	28.2	46.6	75.9	176.5	181.8	185.8		Metropolitan Districts	2.9%	1.0%	1.7%	2.7%	4.4%	4.4%	4.7%
Fire and rescue authorities	5.7	4.5	8.4	6.4	17.1	17.6	18.0		Fire and rescue authorities	1.8%	1.4%	2.5%	1.9%	5.0%	4.9%	4.1%
London	80.8	68.3	147.8	143.3	328.2	338.1	346.1		London	3.0%	2.5%	5.2%	5.0%	8.2%	7.0%	7.4%
Total	430.2	342.4	507.8	558.0	1,160.1	1,194.9	1,222.2		Total	4.0%	3.2%	4.6%	5.0%	8.4%	7.9%	8.2%

Amount above Baseline Need, by region, using the Alternative system

Alternative	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m		Alternative	2013/14 %	2014/15 %	2015/16 %	2016/17 %	2017/18 %	2018/19 %	2019/20 %
South East	57.1	53.9	79.1	82.1	176.1	181.4	185.5		South East	5.0%	4.6%	6.7%	6.9%	14.5%	13.1%	13.9%
South West	42.8	34.2	52.3	38.9	99.9	102.9	105.2		South West	6.0%	4.7%	7.1%	5.2%	11.1%	10.7%	12.0%
London	80.8	68.3	147.8	143.3	328.2	338.1	346.1		London	3.0%	2.5%	5.2%	5.0%	8.2%	7.0%	7.4%
North East	26.4	14.4	12.6	15.5	33.8	34.8	35.6		North East	4.1%	2.2%	1.9%	2.3%	4.9%	4.9%	4.6%
North West	70.4	51.3	57.5	89.7	140.3	144.5	147.7		North West	4.5%	3.2%	3.5%	5.5%	5.8%	6.0%	5.9%
East Midlands	25.8	27.1	46.4	50.1	77.7	80.1	81.9		East Midlands	3.3%	3.4%	5.8%	6.2%	9.4%	8.4%	9.0%
West Midlands	28.6	17.5	31.0	42.8	105.5	108.7	111.1		West Midlands	2.5%	1.5%	2.7%	3.6%	6.7%	7.1%	7.3%
Yorkshire and Humberside	49.7	39.2	25.3	36.9	90.1	92.9	94.9		Yorkshire and Humberside	4.5%	3.5%	2.2%	3.2%	7.7%	6.7%	7.1%
East of England	48.7	36.3	55.7	58.7	108.4	111.7	114.2		East of England	5.5%	4.1%	6.1%	6.4%	11.5%	11.1%	11.0%
Total	430.2	342.4	507.8	558.0	1,160.1	1,194.9	1,222.2		Total	4.0%	3.2%	4.6%	5.0%	8.4%	7.9%	8.2%

The Model : Overall

- This illustrative model is designed to allow the user to see how resources would potentially flow through the alternative system.

- The data chosen is based on the existing data, but adjusted to reverse out appeals provision movements in year and (through adjustable tariff and top ups) variances between forecast and actual business rates received.

- As stated previously, the model is **not able to compare the resource levels** that would have been received under the two systems, as the **actual reward mechanism for the alternative model is yet to be determined**.