National Audit Office

Department for Communities and Local Government

Planning for 100% local retention of business rates

Methodology

MARCH 2017

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This report can be found on the National Audit Office website at www.nao.org.uk

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Introduction

Background

Structure

1 On 29 March 2017 the National Audit Office published *Planning for 100% local retention of business rates*.[1] This current document provides a methodology for the quantitative analysis contained in the report. Information on the qualitative components of the study, such as lists of interviewees, is contained in the report itself.

2 Quantitative analysis in the report covered two main areas:

- analysis of challenges faced by the Department for Communities and Local Government (the Department) in designing the 100% local retention scheme; and
- financial analysis of the operation of the 50% scheme from 2013-14 to 2015-16.

3 The data sources and analytical approaches for each of these areas are covered in the following sections.

4 This methodology report follows the same structure as the main report. Descriptions of the methods and data used in each section of the main report are covered under the same headings in the methodology report.

Defining local authorities

5 By 'local authorities' we mean the 383 authorities in 2016-17 that are either:[2]

- Billing authorities; or
- Major precepting authorities.[3]

1 Comptroller and Auditor General, *Planning for 100% local retention of business rates*, Session 2016-17, HC 1058, National Audit Office, March 2017.
2 For data before 2016-17 there are 384 local authorities, as two standalone fire and rescue authorities merged in 2016-17.
3 Major precepting authorities in this instance include county councils, fire and rescue authorities and the Greater London Authority. Precepting authorities provide services for the populations of the multiple billing authorities within their geographical areas, and receive business rates and council tax precepts from billing authorities. Billing authorities include metropolitan district councils, London borough councils, unitary authorities and district councils.

6 Unless otherwise specified our use of 'local authorities' refers to billing authorities and major precepting authorities together.

Groups of local authorities by function

7 There are four types of billing authorities covered by this report:

- **Unitary authorities** are a single-tier form of local authority, responsible for all services within their administrative boundary. There are 56 unitary authorities across England.
- **Metropolitan districts** are a single-tier form of local authority, responsible for all services within their administrative boundary. There are 36 metropolitan districts across England.
- **London boroughs** are a single-tier form of local authority, responsible for all services within their administrative boundary. There are 33 London boroughs.
- **District councils** are the lower-tier authorities within a two-tier system of local government. They are responsible for a small number of services and do not have responsibility for social care. There are 201 district councils across England.

8 We include three types of major precepting authority:

- **County councils** are the upper-tier authorities within a two-tier system of local government. They are responsible for most of the services, including social care, provided within their administrative boundary, with the remainder provided by the district councils. There are 27 county councils across England.
- **Standalone fire and rescue authorities** include 23 combined and six metropolitan fire and rescue authorities. They have fire and rescue responsibilities for the multiple billing authorities within their areas.
- **Greater London Authority** which has responsibilities for a range of functions including transport, policing and fire and rescue. It receives business rates from London borough councils.

Deflation of cash figures

9 Unless otherwise stated, all figures are in cash terms. Where we have deflated cash figures these have been done to 2015-16 prices. We have used the HM Treasury deflator series published with the 2016 Autumn Statement.

10 Data for change in revenue spending power from 2010-11 to 2015-16 is in 2012-13 prices, however. These figures are drawn directly from our 2014 report *Financial sustainability of local authorities 2014*.[4]

4 Comptroller and Auditor General, *Financial sustainability of local authorities 2014*, Session 2014-15, HC 783, National Audit Office, November 2014.

Part One

Issues and challenges in moving to 100%

Government's proposals

1.1 Our figure for the amount of business rates collected in 2015-16 is taken from the national non-domestic rates (NNDR3) return for that year published by the Department for Communities and Local Government (the Department). It is the net amount receivable from rate payers after taking account of transitional adjustments, empty property rates, mandatory and discretionary reliefs and accounting adjustments.

1.2 Our figure for income collected from the central list for 2015-16 is taken from a House of Commons Library publication.[5]

The current system

Funding local authorities

1.3 The data in **Figure 1** on sources of local authority spending power in 2015-16 is taken from information published by the Department as part of the provisional local government finance settlement for 2017-18.[6]

1.4 It shows data covering all local authorities. As with all Departmental data on core spending power it excludes frontline schools funding and income from sales, fees and charges.[7]

5 House of Commons Library, *Business rates*, Briefing paper number 06247, 5 April 2016.
6 Our data on local government funding throughout the report is from the provisional local government finance settlement for 2017-18 rather than the final settlement. Core spending power data remained unchanged in the final settlement. In order to allow for spending power data to be presented on a consistent basis we have not included the impact of the 2017-18 business rates pilots announced in the final settlement. The pilots are revenue neutral, so they do not affect headline funding figures, although they do lead to a difference in the relative balance of funding streams available to local authorities.
7 Further information on the funding included in core spending power is available here.

Balancing trade-offs through complexity

Balancing resources and need

1.5 **Figure 2** on the mismatch between local deprivation and business rates generation uses data from the Department's indices of multiple deprivation (IMD) for 2015. We used the main IMD score for each billing authority. Major precepting authorities are excluded from the analysis.

1.6 Data on gross rates payable is taken from NNDR3 for 2015-16. It is the gross amount before any reliefs are deducted or other adjustments are made.

1.7 We have excluded six authorities from the figure; two due to missing data, and four outliers which we have excluded for presentational purposes.[8]

Balancing growth and risk

1.8 Data on gross rates payable in **Figure 3** is taken from the Department's NNDR3 forms for the relevant years. It is in real terms at 2015-16 prices. We have used a two-year average, so we show change from 2010-11/2011-12 to 2014-15/2015-16.

1.9 Billing authorities only are shown. We have excluded three authorities; two due to missing data, and one which had recorded a negative figure.

1.10 Our calculation of the range of change in gross rates payable from 2014-15 to 2015-16 uses data from the NNDR3. It is in real terms at 2015-16 prices.

Challenges in building on the 50% system

New challenges for 100%

New responsibilities

1.11 The data for 2019-20 in **Figure 5** is taken from a paper on grants and services presented to the Responsibilities working group on 3 June 2016.[9] However, we have also added in Public Health grant into 'other grants' and included an updated estimate for the central list in 2019-20. Both are taken from the consultation response published by the Department in February 2017.

1.12 'Other grants' in **Figure 5** includes rural services delivery grant, Transport for London capital grant and Public Health grant.

1.13 Figures for 2019-20 are in cash terms. Consequently, the figure for revenue support grant does not match the equivalent figure in 2019-20 in **Figure 9** which is in real terms.

8 The statistical implications of removing the four outliers are not material. The R^2 (R-squared) remains at 0.00 if they are added back in.

9 Responsibilities working group, *Grants and services*, 3 June 2016, available here.

Setting the quantum to be retained

1.14 Our data on the Department's estimate for the quantum to be devolved is taken from the paper on grants and services presented to the Responsibilities working group on 3 June 2016.[10]

Business rates as a tax

The role of the Valuation Office Agency

1.15 Data in **Figure 6** is taken from the Valuation Office Agency's (VOA's) non-domestic rating: challenges and changes data published in September 2016. It only shows appeals and challenges relating to the 2005 and 2010 revaluations. In the years shown in the chart there will also have been appeals and challenges relating to the 2000 revaluation.

1.16 In **Figure 6** and the accompanying text we use the term 'appeal' to cover instances where a ratepayer challenges the rating list. This includes interested person proposals and actual appeals. We use the term 'reports' to refer to assessment reviews. These are instances where the VOA will review the entry in the rating list following a report from a billing authority or the valuation office.

1.17 Our data on change in the VOA's workforce is taken from its 2010-11 and 2015-16 annual reports, and its 2016-18 business plan. Data is for average full-time equivalent staff.

Delivering policy objectives

Delivering economic growth

Links with economic growth

1.18 Data on gross rates payable in **Figure 7** has been taken from the Department's NNDR3 returns. It is in real terms at 2015-16 prices. We have used a two year average, so we show change from 2010-11/2011-12 to 2014-15/2015-16.

1.19 Data on gross value added (GVA) is taken from the ONS workplace-based GVA figures for the relevant years. It is in real terms at 2015-16 prices.

1.20 The GVA data is only available at NUTS 3 level (nomenclature of territorial units for statistics).[11] This covers 'small regions' that are in general larger than local authorities. As a consequence we have aggregated gross rates payable data for billing authorities into groups that correspond to their NUTS 3 areas.

1.21 Due to missing gross rates payable data in three billing authorities, we exclude these authorities and the other authorities that together form their respective NUTS 3 areas.

10 Responsibilities working group, *Grants and services*, 3 June 2016, available here.
11 A description of NUTS areas is available here.

1.22 For presentational purposes we also exclude four other NUTS 3 areas from **Figure 7** as outliers. They are included in the calculation underlying the R^2 (R-squared) score, however.

Ability to shape their area

1.23 The data underlying **Figure 8** is taken from the Department's NNDR3 return. It is in real terms at 2015-16 prices. We have used a two year average, so we show change from 2010-11/2011-12 to 2014-15/2015-16. Three billing authorities have been excluded due to missing or negative data.

1.24 The three groups in the map (other than the missing data group) are based on plus or minus one standard deviation around the mean.

1.25 Analysis in paragraph 1.44 (and **Figure 18** in Appendix Two) groups billing authorities around three characteristics and then examines the extent to which their members have seen above average growth in gross rates payable since 2010-11.

1.26 The three elements used to group billing authorities include:

- Data on the rateable value per m^2 for each authority which is taken from the VOA's non-domestic rating (NDR) business floorspace tables.
- Population density figures taken from the 2011 census and published by the Office for National Statistics (data taken from National Online Manpower System (NOMIS)).
- Figures on job growth from the Business Register and Employment Survey (NOMIS) which show change in workplace-based employment from 2010 to 2015. This includes employees and self-employed (working owners).

1.27 For each indicator, we grouped authorities as 'low' or 'high' based on whether they fell below or above the average for the respective indicator. Only billing authorities are included in the analysis. We then created eight groups based on different combinations of high and low across the three indicators.

1.28 Data on gross rates payable in the analysis has been taken from the Department's NNDR3 returns. It is in real terms at 2015-16 prices. We have used a two-year average, so we show change from 2010-11/2011-12 to 2014-15/2015-16.

1.29 Three billing authorities have been excluded due to missing or negative data.

Delivering self-sufficiency

Funding sufficiency

1.30 Our figure for the reduction in revenue spending power from 2010-11 to 2015-16 is taken from our 2014 report, *Financial sustainability of local authorities 2014*.[12] It shows an estimate of change in spending power (excluding Public Health grant and the Better Care Fund) over this period in real terms at 2012-13 prices. It does not include standalone fire and rescue authorities or the Greater London Authority.

12 Comptroller and Auditor General, *Financial sustainability of local authorities 2014*, Session 2014-15, HC 783, National Audit Office, November 2014.

1.31 Our figure for change in core spending power is taken from the information published by the Department as part of the provisional local government finance settlement for 2017-18. It is in real terms at 2015-16 prices. It includes standalone fire and rescue services and the Greater London Authority.

1.32 Data in **Figure 9** is taken from the information published by the Department as part of the provisional local government finance settlement for 2017-18. It is in real terms at 2015-16 prices. It includes standalone fire and rescue services and the Greater London Authority. The 2017-18 business rates pilots are not included in order to allow the data to be shown on a consistent basis over time. The 2019-20 revenue support grant figure has been adjusted to reflect the top-up or tariff adjustment.

1.33 Data on projected population changes for different age groups from 2015-16 to 2019-20 is taken from ONS population projections accessed via NOMIS.

Part Two

Learning from 50% local retention

Operation of the 50% scheme

The scale and distribution of funding

Aggregate impact

2.1 Data in **Figure 10** is taken from analysis of NNDR3 data undertaken by the Department. This analysis has been published on our website alongside our report.[13] It shows outturn data on net retained business rates by year. It also shows the amounts paid as levies and received as safety net payments. It takes account of pools.

2.2 The spending power figure is taken from information published by the Department as part of the provisional local government finance settlement for 2017-18.

2.3 All data is in cash terms.

Different impacts across authorities

2.4 Data in **Figure 11** is taken from analysis of NNDR3 data provided to us by the Department. It shows the difference between actual levels of retained rates in authorities in 2015-16 and their baseline funding level. This difference, the additional retained amount, is shown as a percentage of both baseline funding and core spending power in that year. These are shown as median for different authority types.

2.5 In each year we have excluded any authority that was a member of a pool. We recognise that authorities not in pools may well have a different business rates profile to those in pools. However, the Department does not collect data on the distribution within pools. Given the uncertainties over distribution within pools we do not feel that it is appropriate for us to model the potential distribution within them.

2.6 The spending power figure for 2015-16 is taken from information published by the Department as part of the provisional local government finance settlement for 2017-18. This did not include separate figures for the two fire authorities that merged in 2016-17. They are therefore excluded from the calculation of growth in retained rates as a share of core spending power. They are included in the other calculations which do not include spending power.

13 The data is available here.

2.7 The gearing information in **Figure 11** is again taken from NNDR3 data provided by the Department. Gearing is the relationship between an individual authority's business rate baseline and its baseline funding level. It is calculated as business rates baseline divided by baseline funding level. An authority's business rates baseline is its baseline funding level plus the tariff or minus the top-up.

2.8 All data is in cash terms.

Appeals

Financial implications

2.9 Our figure for total provisions for appeals is taken from NNDR3 and shows the closing balance at 31 March 2016.

Protecting against risk through pools

2.10 Data in **Figure 12** on pools is taken from analysis of NNDR3 data provided to us by the Department. It shows outturn data on net retained business rates by year. It calculates the value of safety net or levy payments that were avoided in each year by pools.[14] It also shows the amount avoided as a share of the total value of levies that would have been paid or safety net payments received if pools did not exist.

2.11 All data is in cash terms.

2.12 Our figures for pool membership are taken from analysis of NNDR3 and NNDR1 data provided by the Department.

14 The difference between the value of safety net or levy payments that members of pools would have paid if pools had not existed, compared to the actual scale of safety net and levy payments paid by pools.

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