

SUBJECT:	COLLECTION FUND SURPLUS OR DEFICIT – BUSINESS RATES
DIRECTORATE:	CHIEF EXECUTIVE AND TOWN CLERK
REPORT AUTHOR:	JACLYN GIBSON, CHIEF FINANCE OFFICER

1. Purpose of Report

- 1.1 To inform Members of the estimated balance for the Business Rates element of the Collection Fund and the surplus or deficit to be declared for 2018/19.

2. Executive Summary

- 2.1 Prior to setting the Council Tax for 2019/20 the City Council is required to estimate whether there is to be a surplus or deficit on both the Council Tax and Business Rates elements of the Collection Fund for the current financial year (2018/19).
- 2.2 At the Executive meeting on 7th January 2019 the Council declared a surplus on Council Tax of £267,780 for the financial year 2018/19, of which its share was £41,680. The Council will declare a surplus on the Business Rates Collection Fund of £2,463,740 for 2018/19 subject to the confirmation of the Business Rates base by 31st January 2019, of which its share is £1,545,950. This surplus has arisen as a result of an over provision of outstanding ratings appeals.

3. Background

- 3.1 As a Business Rates Billing Authority the Council is required by legislation to estimate the surplus or deficit for each financial year on the Collection Fund. Prior to 2013/14 this estimate was only required for Council Tax. However, as part of the Local Government Finance Act 2012 the Government implemented a Business Rates Retention (BRR) Scheme from April 2013, whereby the collection and distribution of business rates is done via the Collection Fund (distribution of business rates had previously been managed nationally). Local Authorities as a result took on an additional level of risk and uncertainty of business rates funding. In a similar way to Council Tax precepts from the Collection Fund business rate precepts are now fixed prior to the start of a financial year and any variations from this realised through the Collection Fund in year are distributed in the following financial years (based on estimated in the following year and actuals in the subsequent year).
- 3.2 The calculation of business rates is based on an estimate of rates collected in year compared to the estimate made the previous year, taking into account any previously declared surplus or deficit, and a forecast for the remainder of the current year.

- 3.3 A surplus or deficit may occur in the Collection Fund if actual performance during the year is higher or lower than originally estimated when Council was set. Areas of variance include:
- business rates base is larger or smaller than originally anticipated (reasons include properties coming off and off the valuation list (e.g. as a result of redevelopments), appeals by businesses to rating valuations.
 - In year collection rates are higher or lower than expected,
 - Arrears collection rates are higher or lower than expected
- 3.4 The Council is required to declare any surplus or deficit during January of each financial year and once approved has an obligation to notify its major precepting authorities (for business rates these are Lincolnshire County Council and the Government) of their share of the estimated surplus or deficit.

4. Estimated Surplus/Deficit for 2019/20 – Business Rates

- 4.1 As at 31st March 2019 the Collection Fund is estimated to have a surplus of £2,802,260 for business rates relating to the Financial Year 2018/19, the City Council's share of this being £1,681,360.
- 4.2 In addition to declaring the estimated deficit position on the Collection Fund for the current financial year the Council is also required to declare any surplus or deficit relating to the difference between previously declared surplus/deficit positions and the actual outturn position as reported in the Council's Statement of Accounts. In 2018/19 there is a deficit balance of £338,520 in the Collection Fund relating to previous years, the City Council's share of this being £135,410.
- 4.3 Based on the forecast position of the in-year Collection Fund as at 31st March 2019 and taking into account an adjustment for the difference between prior year estimates compared to the actual outturn it is estimated that there will be a surplus of £2,463,740 on the business rates element of the Collection Fund in 2018/19. This will be distributed in full to preceptors in 2019/20. This surplus has primarily arisen as a result of an over provision for the level of outstanding appeals against the 2010, 2015 and 2017 ratings lists.

5. Strategic Priorities

- 5.1 There are no direct implications for the Council's Strategic Priorities arising as a result of this report.

6. Organisational Impacts

6.1 Finance

For City of Lincoln the financial implications of the report are summarised below:

Distribution of surplus/(deficit)	CoLC share £
NNDR – prior year deficit	(135,410)
NNDR – 2018/19 surplus	1,681,360
Total surplus	1,545,950

The Council's share of the estimated surplus will be distributed in 2019/20 and will form part of the Medium Term Financial Strategy 2019-24.

At the commencement of the BRR scheme in 2013 the Council established a volatility reserve to manage the potential fluctuations in business rate income in order to smooth the impact on the MTFs and to cushion the blow of any significant reductions or deficits. The current balance on this reserve stands at £0.539m with budgeted net transfers 2019/20 to 2023/24 of £1.1m resulting in a currently unallocated balance of £1.639m, which will be set aside to offset any subsequent deficits.

- 6.2 Legal Implications incl Procurement Rules - There are no legal implications arising as a direct result of this report.

7. Risk Implications

- 7.1 Business rate income and appeals assessments are monitored on a monthly basis and form part of the overall budget monitoring and reporting to Members. However, the volatility in the level of business rate income presents a significant financial risk to the Council, particularly in relation to the level of appeals within the system. This risk along with other key financial risks forms part of the overall risk assessment of the MTFs and in part determines the Council's approach to the level of reserves and balances that it deems prudent to hold.

8. Recommendations

- 8.1 The Executive are recommended to confirm the action of the Chief Finance Officer in declaring a business rates surplus of £2,463,740 for 2018/19 subject to the confirmation of the business rates base by 31st January 2019. Any amendments to the declared deficit will be notified to the relevant preceptors and be included in the Final MTFs 2019-24 to be presented to the Executive 25th February 2019.

Is this a key decision? Yes

Do the exempt information categories apply? No

Does Rule 15 of the Scrutiny Procedure Rules (call-in and urgency) apply? No

How many appendices does the report contain? None

List of Background Papers: None

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