

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 2020/21.

2. Executive Summary

- 2.1 Prior to setting the Council Tax for 2021/22 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 (2020/21).
- 2.2 At the Executive meeting on 4th January 2020 the Council declared a deficit on Council Tax of £1,105,616 for the financial year 2020/21, of which it's share was £165,680. The Council will declare a deficit on the Business Rates Collection Fund of £30,070,943 for 2020/21 subject to the confirmation of the Business Rates base by 31st January 2021, of which its share is £12,028,378.
- 2.3 Whilst this is a significant deficit, £26,397,692 (£10,559,077 City Council share) of the deficit is offset by Government grants received to compensate local authorities in respect of the expanded retail rate reliefs awarded to business in response to the Covid19 pandemic. The remaining £3,673,251 deficit, of which the Council's share is £1,469,301, has arisen primarily due to an increase in provision for business rates appeals and an increase in empty property reliefs, both of which have been adversely affected by the Covid19 pandemic.
- 2.4 In response to these significant financial pressures that Councils are facing arising from the impacts of Covid19 on local taxes as part of the Spending Review 2020 the Government announced a compensation scheme for irrecoverable local tax losses. Based on the principles of the consultative policy paper on this scheme and the estimated deficit the Council would receive compensation of £1,082,564m towards its remaining share of the business rates deficit, **leaving a balance of c£386,737 to be resourced by the Council through the General Fund.**

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 However, 2020/21 has seen some significant changes in the business rates base arising due to the Covid19 pandemic. The most significant of which has been the Retail Business Rates Discount. The Government's national lockdown announcement in March required retail, leisure and hospitality businesses to close for the duration of the lockdown. To support businesses through this period, Government announced that the Retail Business Rates Discount scheme would be expanded providing 100% Business Rates relief to businesses forced to close. This adversely impacted on Local Authorities expected Business Rates income collection by significantly reducing the amount of Business Rates payable, for the Council the level of reliefs awarded was equivalent 57% of the net rates payable. In order to compensate Local Authorities for the income loss the Government has reimbursed the through a Section 31 grant received in 2020/21. Due to the nature of Collection Fund accounting the deficit to Local Authorities arising from the in year reduction of net rates payable due to the additional reliefs awarded will not be borne until the following financial year. The Section 31 grant will need to be held in earmarked reserves at the financial year end and used to reimburse the element of the declared Business Rates deficit resulting from the expanded retail relief in 2021/22.
- 3.5 Under normal circumstances a surplus or deficit reported in year is carried forward in the Collection Fund into the following financial year, when it then impacts on the General Fund budget. However, on 1st December 2020 the Local Authorities (Collection Fund: Surplus and Deficit) (Coronavirus) (England) Regulations 2020 came into effect. These regulations, which are mandatory, amend the rules governing the apportionment of Collection Fund surpluses and deficits for Council Tax and Non-domestic Rates. The key element of the Regulations is that Collection Fund deficits arising in 2020/21 can be spread over the following three years, rather than the usual period of one year. The amended legislation states that the Council is required to estimate an 'exceptional balance' for each of the Council Tax and Business Rates 2020/21 position: for Business Rates, this excludes amounts in

respect of expanded Business Rates relief to businesses to support them during the pandemic and is net of any previous year's surplus/deficit. If this 'exceptional balance' is in deficit, the deficit phasing provisions within the amended legislation are triggered and the amount must be spread and reimbursed to the Collection Fund in three equal portions over the next three financial years.

- 3.6 The Government also announced as part of the Spending Review 2020 a local tax income guarantee for 2020/21 to compensate Local Authorities for irrecoverable local taxation losses. For Business Rates, authorities will be compensated for 75% of all unbudgeted non-collection and 75% of any prior year adjustments not provided for. The final amount of compensation due to each authority will be calculated at the year of the financial year 2020/21 based on the outturn of each billing authority.
- 3.7 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 2020/21 – Business Rates

- 4.1 As at 31st March 2021 the Collection Fund is estimated to have a deficit of £30,006,235 for business rates relating to the Financial Year 2020/21, the City Council's share of this being £12,002,494. Of the Council's share of this deficit, £10,559,077 has arisen due to the Government support provided to business through the expanded retail relief. A compensating amount of grant has been received from the Government in 2020/21 and will be held in an earmarked reserve to offset the deficit in 2021/22. The Council's remaining share of the deficit of £1,443,417 has arisen primarily due to an increased provision required for appeals, as a result of the pandemic a significant number of business have submitted 'material change in circumstances' challenges, as well as an increase in the amount of empty property relief awarded, again due to the impacts of Covid19.
- 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 2020/21 there is a deficit balance of £64,708 in the Collection Fund relating to previous years, the City Council's share of this being £25,883.
- 4.3 Based on the forecast position of the in-year Collection Fund as at 31st March 2021 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 deficit of £30,070,943 on the business rates element of the Collection Fund in 2020/21. In accordance with the amended regulations this deficit will be distributed as follows:

	2021/22 £	2022/23 £	2023/24 £	Total £
Business Rates – 20/21 estimate deficit	1,202,848	1,202,848	1,202,847	3,608,543

Business Rates – expanded retail relief	26,397,692	0	0	26,397,692
Business Rates - prior years deficit	64,708	0	0	64,708
Total Deficit	27,665,248	1,202,848	1,202,847	30,070,943

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:

	2021/22 £	2022/23 £	2023/24 £	Total £
Business Rates – 20/21 estimate deficit	481,139	481,139	481,140	1,443,418
Business Rates – expanded retail relief	10,559,077	0	0	10,559,077
Business Rates - prior years deficit	25,883	0	0	25,883
Total Deficit	11,066,099	481,139	481,140	12,028,378

The Council's share of the estimated deficit will be distributed as set out in the above table and will form part of the Medium Term Financial Strategy 2021-26.

The Council's overall share of the 2020/21 forecast outturn position for the Collection Fund is a declared deficit of £12,028,378. However, as outlined above this declared position will be partially offset in 2021/22 by the Section 31 grant received in relation to expanded Business Rates reliefs given to businesses during the pandemic.

On this basis the Council's share of the 2020/21 forecast outturn position for the Collection Fund (net of the expanded 100% Business Rates reliefs) is a net deficit of £1,469,302. In line with the amended legislation governing Collection Fund accounting, the Council's share of the net deficit will be reimbursed by the Council's General Fund over 2021/22, 2022/23 and 2023/24.

As part of the Spending Round 2020 and with further details provided in the Provisional Local Government Finance Settlement, MHCLG have announced a new local tax income guarantee for 2020/21. This proposed scheme will compensate councils for 75% of irrecoverable losses incurred during 2020/21. Based on the Collection Fund deficit set out in this report, it is estimated that £1,082,564 of compensation would be due to the Council. The actual level of compensation will be known at the end of the financial year and will be accounted for in 2020/21 and transferred to an earmarked reserve to offset against the deficits set out above.

- 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 which has been heightened to unprecedented levels due to the Covid19 pandemic. 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 deficit of £30,070,943 for 2020/21 subject to the confirmation of the business rates base by 31st January 2021. Any amendments to the declared deficit will be notified to the relevant preceptors and be included in the Final MTFS 2021-26 to be presented to the Executive 22nd February 2021.

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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