

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 2021/22.

2. Executive Summary

- 2.1 Prior to setting the Council Tax for 2022/23 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 (2021/22).
- 2.2 At the Executive meeting on 4th January 2021 the Council declared a deficit on Council Tax of £35,562 for the financial year 2021/22, of which it's share was £5,712. The Council will declare a deficit on the Business Rates Collection Fund of £8,907,238 for 2021/22 subject to the confirmation of the Business Rates base by 31st January 2022, of which its share is £3,562,895.
- 2.3 Whilst this is a significant deficit, £9,473,367 (£3,789,347 City Council share) of the deficit is offset by Government grants received to compensate local authorities in respect of the business rate reliefs awarded to business in 2021/22 in response to the Covid19 pandemic. The remaining balance of £566,129 surplus, of which the Council's share is £226,452, has arisen due to the final year end position on the 2020/21 Collection Fund, which was more positive than estimated, offset by an in-year increase in empty property reliefs, which has been adversely affected by the pandemic.
- 2.4 In addition, as part of a spreading adjustment in respect of 2020/21 deficits, a deficit of £1,202,848, with the City Council's share being £481,139, will be distributed in 2022/23.
- 2.5 The net position to be distributed in 2022/23, for the City Council's share, is therefore a deficit of £4,044,035, as set out below:

	2022/23 CoLC Share £
Business Rates – 21/22 estimated deficit	4,160,683
Business Rates - prior years surplus	(597,788)
Total Surplus Declared for 21/22	3,562,895
Business Rates – spreading adjustment 20/21	481,139
Total Deficit to be distributed in 22/23	4,044,035

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, 2021/22 has seen some significant changes in the business rates base arising due to the Covid19 pandemic. The most significant of which has been the Expanded Business Rates Reliefs. Following the significant reliefs awarded to businesses in the hospitality, retail, and leisure industry in 2020/21, the Government announced in March 2021 further rate relief support for 2021/22, providing 100% relief for three months and 66% for the remaining period. 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 to 20% 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 2021/22. 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 2022/23.
- 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 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 2021/22 – Business Rates

- 4.1 As at 31st March 2022 the Collection Fund is estimated to have a deficit of £10,401,708 for business rates relating to the financial year 2021/22, the City Council's share of this being £4,160,683. Of the Council's share of this deficit, £3,789,347 (£9,473,367 total) 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 2021/22 and will be held in an earmarked reserve to offset the deficit in 2022/23. The remaining balance of the deficit of £928,341, of which the Council's share is £371,336, has arisen primarily due to an in-year increase in empty property reliefs, which has been adversely affected by the pandemic.
- 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 2021/22 there is a surplus balance of £1,494,470 in the Collection Fund relating to previous years, the City Council's share of this being £597,788.
- 4.3 Based on the forecast position of the in-year Collection Fund as at 31st March 2022 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 £8,907,238 on the business rates element of the Collection Fund in 2021/22.

5. Spreading Adjustment

- 5.1 As set out in paragraph 3.5 above under normal circumstances a surplus or deficit reported in year is carried forward in the Collection Fund into the following financial year, when it is distributed and 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, requiring Collection

Fund deficits arising in 2020/21 be spread over the following three years, rather than the usual period of one year.

- 5.2 As a result of this the deficit that the Council declared in relation to 2020/21, of £892,766, was spread over three year as follows:

	2021/22 £	2022/23 £	2023/24 £	Total £
City of Lincoln Council	481,139	481,139	481,139	1,443,417
Lincolnshire County Council	120,285	120,285	120,285	360,855
Central Government	601,424	601,424	601,424	1,804,272
Total 2020/21 estimated deficit	1,202,848	1,202,848	1,202,848	3,608,544

The deficit of £1,202,848 will therefore also be distributed in 2022/23, in addition to the deficit of £8,907,238, a total position of a £10,110,086 deficit.

6. Strategic Priorities

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

7. Organisational Impacts

7.1 Finance

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

	2022/23 £
Business Rates – 21/22 estimated deficit	4,160,683
Business Rates - prior years surplus	(597,788)
Total Surplus Declared for 21/22	3,562,895
Business Rates – spreading adjustment 20/21	481,139
Total Deficit to be distributed in 22/23	4,044,035

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 2022-27.

The Council's overall share of the 2021/22 forecast outturn position for the Collection Fund is a declared deficit of £4,044,035. However, as outlined above this declared position will be partially offset in 2022/23 by the Section 31 grant received in relation to expanded Business Rates reliefs given to businesses as a result of the pandemic.

7.2 Legal Implications incl Procurement Rules

There are no direct legal implications arising as a result of this report.

7.3 Equality, Diversity and Human Rights

The Public Sector Equality Duty means that the Council must consider all individuals when carrying out their day-to-day work, in shaping policy, delivering services and in relation to their own employees.

It requires that public bodies have due regard to the need to:

- Eliminate discrimination
- Advance equality of opportunity
- Foster good relations between different people when carrying out their activities.

Due to the nature of the report, no specific Equality Impact Analysis is required.

8. Risk Implications

- 8.1 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.

9. Recommendations

- 9.1 The Executive are recommended to confirm the action of the Chief Finance Officer in declaring a business rates deficit of £8,907,238 for 2021/22 subject to the confirmation of the business rates base by 31st January 2022. Any amendments to the declared deficit will be notified to the relevant preceptors and be included in the Final MTFS 2022-27 to be presented to the Executive 21st February 2022.
- 9.2 The Executive are asked to note the spreading adjustment of a £1,202,848 deficit to be distributed in 2022/23.

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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