

SUBJECT: COLLECTION FUND SURPLUS/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 2022/23.

2. Executive Summary

- 2.1 Prior to setting the Council Tax for 2023/24 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 (2022/23).
- 2.2 At the Executive meeting on 3rd January 2022 the Council declared a deficit on Council Tax of £926,896 for the financial year 2022/23, of which it's share was £136,126. The Council will declare a surplus on the Business Rates Collection Fund of £2,908,114 for 2022/23 subject to the confirmation of the Business Rates base by 31st January 2023, of which its share is £1,163,246.
- 2.3 Whilst this is a significant surplus, £1,637,799 (£655,120 City Council share) of the surplus is offset by Government grants provided to compensate local authorities in respect of the business rate reliefs awarded to business in 2022/23. The remaining balance of £1,207,315 surplus, of which the Council's share is £508,126, has arisen due to the final year end position on the 2021/22 Collection Fund, which was more positive than previously estimated.
- 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 2023/24.
- 2.5 The net position to be distributed in 2023/24, for the City Council's share, is therefore a surplus of £682,107, as set out below:

	2023/24 CoLC Share £
Business Rates – 22/23 estimated surplus	(675,333)
Business Rates - prior years surplus	(487,912)
Total Surplus Declared for 22/23	(1,163,246)
Business Rates – spreading adjustment 20/21	481,139
Total Deficit to be distributed in 23/24	(682,107)

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.
 - Reliefs and exemptions are higher or lower than expected,
 - In year collection rates are higher or lower than expected,
 - Arrears collection rates are higher or lower than expected
- 3.4 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 could be spread over the following three years, rather than the usual period of one year. The amended legislation stated 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.
- 3.5 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 2022/23 – Business Rates

- 4.1 As at 31st March 2023 the Collection Fund is estimated to have a surplus of £1,688,333 for business rates relating to the financial year 2022/23, the City Council's share of this being £675,333. Of the Council's share of this surplus, £655,120 (£1,637,799 total) has arisen due a lower level, than estimated, of business rates reliefs being applicable in 2022/23. A compensating amount of grant will therefore be repayable to the Government. The remaining balance of the surplus of £50,535, of which the Council's share is £20,214, has arisen due to in year fluctuations in the levels of business rates due.
- 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 2022/23 there is a surplus balance of £1,219,781 in the Collection Fund relating to previous years, the City Council's share of this being £487,912.
- 4.3 Based on the forecast position of the in-year Collection Fund as at 31st March 2023 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 £2,908,114 on the business rates element of the Collection Fund in 2022/23.

5. Spreading Adjustment

- 5.1 As set out in paragraph 3.4 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 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 2023/24, in addition to the surplus of £2,908,114, a total position of a £1,705,266 surplus.

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:

	2023/24 £
Business Rates – 22/23 estimated surplus	(675,333)
Business Rates - prior years surplus	(487,912)
Total Surplus Declared for 22/23	(1,163,246)
Business Rates – spreading adjustment 20/21	481,139
Total Deficit to be distributed in 23/24	(682,107)

The Council's share of the estimated surplus will be distributed as set out in the above table and will form part of the Medium Term Financial Strategy 2023-28.

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 current economic environment. 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 surplus of £2,908,114 for 2021/22 subject to the confirmation of the business rates base by 31st January 2023. Any amendments to the declared deficit will be notified to the relevant preceptors and be included in the Final MTFs 2023-28 to be presented to the Executive 20th February 2023.
- 9.2 The Executive are asked to note the spreading adjustment of a £1,202,848 deficit to be distributed in 2023/24.

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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