

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 2024/25.

2. Executive Summary

- 2.1 Prior to setting the Council Tax for 2025/26 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 (2024/25).
- 2.2 At the Executive meeting on 6th January 2025 the Council declared a deficit on Council Tax of £400,924 for the financial year 2024/25, of which it's share was £56,359. The Council will declare a deficit on the Business Rates Collection Fund of £1,560,563 for 2024/25 subject to the confirmation of the Business Rates base by 31st January 2025, of which its share is £624,225.
- 2.3 This deficit has primarily arisen due to the in-year and backdated element of Check, Challenge and Appeals against the Ratings Lists.

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 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 2024/25 – Business Rates

- 4.1 As at 31st March 2025 the Collection Fund is estimated to have a deficit of £585,831 for business rates relating to the financial year 2024/25, the City Council's share of this being £234,332. This deficit has arisen due to a reduction in the gross rates payable in year, primarily due to the removal on appeal of two museums from the Ratings List, and due to the need to increase the provisions for other Check, Challenge and Appeals against the 2017 and 2023 Ratings Lists.
- 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 2024/25 there is a deficit balance of £974,732 in the Collection Fund relating to previous years, the City Council's share of this being £389,893. This has arisen mainly due to the back dated element of the appeal to remove two museums from the ratings list.
- 4.3 Based on the forecast position of the in-year Collection Fund as at 31st March 2025 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 £1,560,563 on the business rates element of the Collection Fund in 2024/25.

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:

	2025/26 £
Business Rates – 24/25 estimated deficit	234,332
Business Rates - prior year's deficit	389,893
Total Deficit Declared for 24/25	624,225

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 2025-30.

This deficit will be a cost to the General Fund in 2025/26 and will be funded from the Business Rates Volatility Reserve, which is held to cushion such fluctuations in Business Rates income. There is currently a balance of £969,134 in the reserve.

6.2 Legal Implications incl Procurement Rules

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

6.3 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.

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 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.

8. **Recommendations**

- 8.1 Executive are recommended to confirm the action of the Chief Finance Officer in declaring a business rates deficit of £1,560,563 for 2024/25 subject to the confirmation of the business rates base by 31st January 2025. Any amendments to the declared deficit will be notified to the relevant preceptors and be included in the Final MTFS 2025-30 to be presented to the Executive 24th February 2025.

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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