

Addendum to RD07/15Revenue Outturn Report & RD10/15Council Tax & NNDR Outturn Report

Executive 1 June 2015

Outturn Position for Business Rate Retention, Pooling and Collection Fund

1.0 INTRODUCTION

- 1.1 This addendum provides an update to the Revenue Outturn Report (RD07/15) and the Council Tax and NNDR Outturn Report (RD10/15) in relation to the performance of the Business Rates Retention Scheme in 2014/15 and the final position of the Cumbria Business Rates Pool.
- 1.2 2014/15 is the second year of the Business Rate Retention Scheme and new Collection Fund Accounting Regulations and the first year the Council has participated in the Cumbria Pooling arrangement.

2.0 BACKGROUND

- 2.1 In general terms, the Government estimates how much it thinks will be collected nationally from business rates. It then keeps 50% of this for itself (called the 'central share') and allocates the remaining 50% (called the 'local share') to local authorities, pro-rata to the level of business rates that they have collected in the past. In doing this, each authority is allocated a notional 'business rates baseline'. It is from this business rates baseline that any growth or decline is measured. A system of top ups and tariffs is also applied in order to apply some equalisation. In Cumbria, all the districts are tariff authorities and the County Council is a top up authority.
- 2.2 For 2014/15, this baseline for the Council was used as its budget estimate for income to be retained from Business Rates and an additional £500,000 was estimated to be generated from retained growth and from the effects of participating in the Cumbria Pool.
- 2.3 Normally any growth from the baseline is then shared 50/50 between the Council and Central Government in what is known as a 'levy'. However, local areas can form combined pools, where the net position of top ups and tariffs result in the pool being a net top-up authority. The benefit of forming the pool is that 100% of growth is kept within that pool and not paid over to central government, meaning the local area benefits from growth in business rate income. There are potential risks too though in that the pool has to deal itself with any fall in business rates as the Government will not pay any safety net payments if income falls below 92.5% of the baseline.
- 2.4 The decision was taken to participate in the Cumbria Pool in 2014/15 along with Eden, South Lakeland, Barrow, Allerdale and the County Council. Copeland did not join the pool as the impact of Sellafield on their business rates meant their

participation in the pool would be detrimental to the other authorities. The County Council are the administering body for the pool. Each district pays the 50% levy that would have gone to the Government into the Pool, and this is then distributed amongst the members on an agreed formula. The distribution is as follows:

Gross Retained Levies

- Administration Costs by County Council
- = Net Retained Levy

40% distributed on basis of spending baseline proportions

40% distributed on basis of gross levy proportions (i.e. how much each authority pays into the pool)

20% retained as a volatility reserve for any future decline in income

3.0 2014/15 OUTTURN

3.1 There are three elements to the 2014/15 outturn, firstly the performance of the City Council's Business Rate Retention, secondly the performance of the Pool and finally the performance of the Collection Fund.

3.2 Business Rate Retention& Pooling

The table below shows the outturn for the Council's Business Rate Retention Scheme.

Carlisle City Council	£000
Income due from Rates Retention	(16,129)
Tariff payable	13,194
	(2,935)
Section 31 Grants for Small Business Rate Relief	(495)
Section 31 Grants for Localism Reliefs	(207)
Total Net Retained Income	(3,637)
Baseline Funding	(2,970)
Total Growth	(667)
Levy Payable	(334)
Growth Retained	(334)

3.3 Therefore, the Council retains £334,000 and pays £334,000 into the pool. The table below shows the total performance of the pool and the redistribution the Council will receive.

Cumbria Business Rate Pool	Levies	Spending Baseline Proportions	Gross Levy Proportions	Total Retained levy	Share of Volatility Reserve
	£	£	£	£	£
Allerdale	359,504	28,775	141,703	170,478	41,845
Barrow	349,875	24,634	137,908	162,541	39,897
Carlisle	333,479	26,253	131,445	157,698	38,708
Eden	320,371	13,505	126,278	139,783	34,311
South Lakeland	692,403	17,704	272,919	290,624	71,335
Cumbria		699,382	0	699,382	179,031
	2,055,632	810,253	810,253	1,620,506	405,127
Less Admin Cost	(30,000)				
Net Retained levy	2,025,632				

- 3.4 The Council has therefore benefited from the Pool by £157,698 and will hold £38,708 in an earmarked reserve for future volatility pressures experienced by the Pool. This volatility reserve is requested to be set up as part of report RD07/15. The benefit of participating in the pool has effectively reduced the levy rate from 50% to 26.3% i.e. the Council gains £492,000 out of £667,000 growth, as opposed to £334,000 without pooling.
- 3.5 The budget was set at the baseline level set by Government. However, actual income credited to the general fund is based on the NNDR1 estimate produced at the end of January 2014 and includes the estimate of Business Rate Income, the estimate for grant funding and the actual position on the Collection Fund. Therefore, the position against the budget for retained income is as follows:

Carlisle City Council	£000
Business Rate Baseline	(2,970)
Budgeted Growth/Pooling	(500)
Total Budgeted Funding	(3,470)
Income due from Rates Retention per NNDR1	(16,556)
Deficit on Collection Fund Brought Forward	166
Tariff payable	13,194
Section 31 Grants for Small Business Rate Relief	(495)
Section 31 Grants for Localism Reliefs	(207)
Section 31 Grants for Capping Rates increase at 2%	(48)
Levy Payable	334
Pooling Redistribution	(158)
Total Net Retained Income against Budget	(3,770)
Total Additional Income to be returned to Reserves	(300)

3.6 The amount to be returned to reserves highlighted in report RD07/15 will therefore increase by the £300,000 identified above. Revisions to the budgeted funding for future years will be considered as part of the Medium Term Financial Plan for 2016/17.

3.7 Collection Fund

The final aspect of Business Rate Retention relates to the position on the Collection Fund. The Collection Fund records all the entries in relation to income and expenditure in relation to Business Rates. In 2013/14 the deficit on the fund was £408,577 of which the Council's share was £163,431.

In December 2014, businesses were given a deadline to submit appeals that could be back dated to 2010 to their rateable value of 31 March 2015. There were therefore a significant number of appeals submitted in the last few months of 2014/15. In fact, over £23million of Rateable value in Carlisle was appealed in the last 3 months of the year. This has had a significant effect on not only the performance against income but also the position of the collection fund.

Carlisle City Council	£000
Balance Brought Forward (Deficit)	409
Net Rates Payable	(41,141)
Transition payments	276
Cost of Collection	180
Shares to Major Preceptors	40,976
Renewables	16
Appeals Settled Provided for in 2013/14	(1,402)
New Appeals to be provided for 2014/15	1,406
Losses on Collection	342
In Year Deficit	653
Total Carried Forward Deficit	1,062
Carlisle City Council Share	425
Cumbria County Council Share	106
Central Government Share	531

3.8 The deficit on the Collection fund is carried forward on the Balance Sheet and will be recovered as part of the redistribution in 2016/17.

4.0 CONCLUSION

4.1 Business Rates income has performed well in 2014/15 and has exceeded budgeted expectations by £300,000. The Council has achieved growth in Retained Business Rates income of £667,000 in 2014/15 and by participating in the Cumbria Pool has managed to retain £492,000.

4.2 The Collection Fund deficit for 2014/15 is £1,062,399 with the Council's share being £424,960 which will be recovered in 2016/17.

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5.0 RECOMMENDATIONS

5.1 Executive is asked to:

- (i) Note the final outturn on Retained Business Rates with achieved growth of £666,958, the Council's share being £333,479.
- (ii) Note that the benefit of participating in the Cumbria Business Rate Pool is £157,698.
- (iii) Recommend to Council that the Volatility Reserve be established as per recommendation (vi) of report RD07/15, and that £38,708 is added to the reserve in line with the Pooling agreement.
- (iv) Note that the deficit on the Collection Fund for 2014/15 is £1,062,399, with the Council's share being £424,960
- (v) Note that the additional income generated of £300,143 over the budgeted funding position be returned to General Fund Reserve