



Carlisle City Council

Report to Executive

Report details

Meeting Date:	25 July 2022
Portfolio:	Finance, Governance and Resources
Key Decision:	Yes: Recorded in the Notice Ref: KD.11/22
Policy and Budget Framework	Yes/No
Public / Private	Public
Title:	BUSINESS RATES OUTTURN 2021/22
Report of:	CORPORATE DIRECTOR OF FINANCE AND RESOURCES
Report Number	RD.26/22

Purpose / Summary:

This report summarises the 2021/22 provisional outturn and performance position for Business Rates and the impact it will have on the overall General Fund Balance.

Members should also note that these figures, as presented, may be subject to change pending the completion of all Cumbrian authorities NNDR3 returns and final confirmation of any business rates pooling gains for 20201/22.

Recommendations:

Members are asked:

- (i) to note the provisional outturn position for Business Rates at 31 March 2022;
- (ii) to note the additional transfer to General Fund Reserves of £425,000 subject to the agreement of, or other recommendations from, the Executive;
- (iii) to approve the transfer to the Business Rates S.31 Grant earmarked reserve as outlined in paragraph 4.3.

Tracking

Executive:	25 July 2022
Scrutiny:	14 July 2022 (People)
Council:	

1. Background

- 1.1 The aim of this report is to:
 - a. Advise Members of the current position on the 2021/22 Business Rates Accounts i.e. the total value of accounts raised and how much has been collected in the 2021/22 financial year.
 - b. Highlight and explain any variances against the expected (or budgeted) position.
- 1.2 Members are reminded that the Council Tax outturn position was reported to its meeting on 25 May 2022.

2. Business Rates Provisional Outturn as at 31 March 2022

- 2.1 2021/22 is the ninth year of the Business Rate Retention Scheme (BRRS) and the Collection Fund Accounting Regulations and the sixth year the Council has participated in the Cumbria Pooling arrangement.
- 2.2 For 2021/22, the BRRS baseline for the Council of £3.335m was used as its budget estimate for income to be retained from Business Rates and an additional £2.700m was estimated to be generated from additional business rate income over the baseline level and from the effects of participating in the Cumbria Pool. A further £0.174m was expected for the Business Rate Multiplier Grant. A total of £6.209m was therefore expected to fund General Fund revenue activities. This was then reduced by the release of S.31 grant from the Business Rate S.31 Grant reserve to cover the estimated exceptional deficit that arose in 2020/21.
- 2.3 Under normal circumstances any additional income over and above the baseline level is 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 additional income is kept within that pool and not paid over to central government, meaning the local area benefits from growth in business rate income. However, there are also potential risks as the pool has to deal with any fall in business rates itself as the Government will not pay any safety net payments when income falls below 92.5% of the baseline.
- 2.4 The County Council are the administering body for the pool, with all Districts in Cumbria participating in the arrangement. Each district pays the 50% levy that would have gone to Central Government into the Pool. 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

2.5 2021/22 Outturn

There are three elements to the 2021/22 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.

2.6 It should be noted that due to the ongoing effects of responding to the COVID-19 pandemic, there have been significant changes and impacts on the Business Rates accounts for the year. These will have an ongoing impact into 2022/23 and will require some changes to the accounting of Collection Fund and General Fund balances.

2.7 In order to support businesses through the pandemic, Government announced that there would be additional expanded relief given to the retail, leisure and hospitality sector. This relief was 100% of business rates for those businesses in the qualifying groups between April and June 2021, and 50% for the rest of the year.

2.8 Therefore, as the Council would not collect Business Rates from these businesses, the Government provided compensation to local authorities in the form of a Section 31 grant. The Council received £8.177m in respect of expanded retail relief, nursery discount and local newspaper relief. However, this compensation has been paid gross, i.e. the 50% local share and the 50% central government share, so that the Council is not negatively impacted in cashflow terms by the loss of rates. As part of the year end closedown, the Council will only recognise its share of the grants due

2.9 Section 31 grants are credited to the General Fund and not the Collection Fund as is the case for any rating income collected. Therefore, the Collection Fund will be in deficit due to rating income not being collected as was expected at the start of the year. However, the General Fund will have excess income due to the crediting of the S.31 grants. The Collection Fund Deficit is recognised through the General Fund in 2022/23 in line with proper accounting practice and it will therefore be necessary to carry forward the General Fund surplus to offset the deficit into 2022/23 through an earmarked reserve.

3.0 Business Rate Retention & Pooling

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

Carlisle City Council	£000
Income due from Rates Retention	(14,054)
Tariff payable	12,569
	(1,485)
Discretionary Reliefs Funded by S.31 Grant	(4,548)
Total Net Retained Income	(6,033)
Baseline Funding	(3,335)
Total Additional Income	(2,698)
Levy Payable (to Pool)	(1,349)
Income Retained	(1,349)

3.2 Therefore, the Council retains an estimated £1,349,235 and pays £1,349,235 into the pool. The total performance of the pool for 2021/22 is not currently available as this requires information from all 6 district councils in Cumbria based upon their NNDR3 returns and at the time of writing these were not all completed. However, it is estimated that, based on the level of the Levy payable to the Pool and the monitoring information from throughout the year, that £700,000 could be redistributed as the Council's share of the pool performance. An element of this gain may be used to establish a Volatility Reserve as a separate earmarked reserve; however, all members of the Pool are free to decide what to do with the volatility element. Therefore, based upon the information available to us at this point in time, the estimated benefit of participating in the pool has effectively reduced the levy rate from 50% to 24% i.e., the Council gains £2,049,235 out of £2,698,469 growth, as opposed to £1,349,235 without pooling.

4.0 2021/22 Budget

4.1 The budget for funding from Business Rates was set at the baseline level which is set by Government and an additional amount to allow for growth and pooling benefits. However, actual income credited to the general fund is based on the 'NNDR1' estimate produced at the end of January 2021 and includes the estimate of Business Rate Income, the estimate for grant funding (Section 31 Grants) 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	(3,335)
Business Rate Multiplier Grant	(174)
Budgeted Growth/Pooling	(2,700)
Total Budgeted Funding	(6,209)
Adjustment for release of S.31 Business Rate Reserve	9,463
Total Budgeted Funding	3,254
Income due from Rates Retention per NNDR1	(17,416)
Deficit on Collection Fund Brought Forward	9,463
Tariff payable	12,569
Section 31 Grants for Funded reliefs ¹	(5,078)
Tax Income Guarantee Scheme repayment	23
Income due from Renewables Rate Growth	(374)
Enterprise Zone Reliefs	(418)
Levy Payable ¹	1,349
Pooling Redistribution ¹	(700)
Total Net Retained Income against Budget	(582)
Total Additional Income to be returned to Reserves	(3,836)

Note1: These figures are currently estimates and may be subject to change once final NNDR3 form is submitted and final pooling figures are known.

- 4.2 Therefore, £3,836,093 will be returned to reserves, however as mentioned in paragraph 2.9, this surplus is due to income credited to the general fund from section 31 grants and will be needed to counteract the deficit funding shown in general fund in 2022/23. This was estimated in January 2022 to be £3,155,170.
- 4.3 **Therefore, it is recommended that £3,155,170 of the additional income recorded in 2021/22 be transferred to the Business Rates S.31 Grant earmarked reserve at 31 March 2022 and released to General Fund in 2022/23.** Responsibility for this reserve rests with the Corporate Director of Finance and Resources and approval to release the reserve can be given by the Corporate Director of Finance and Resources via an Officer Decision Notice.
- 4.4 The remaining additional income balance is recommended to be returned to the General Fund Reserve balance.
- 5.0 Collection Fund
- 5.1 The final aspect of Business Rate Retention relates to the position on the Collection Fund. The Business Rates Collection Fund records all the entries in relation to income and expenditure in relation to Business Rates. In 2020/21 the final deficit on the

Business Rates Collection Fund was £23,827,269 of which the Council's share was £9,530,909.

5.2 The current position on the Business Rates Collection Fund is shown below:

Carlisle City Council	£000
Balance Brought Forward Deficit	23,827
Net Rates Payable	(35,070)
Transition payments	581
Cost of Collection	177
Shares to Major Preceptors	43,232
Shares of Estimated Deficit B/Fwd (NNDR1)	(23,657)
Renewables	377
Enterprise Zone	308
Appeals Settled Provided for in 2021/22	(1,240)
New Appeals to be provided for	(195)
Losses on Collection	234
In Year Deficit	(15,253)
Total Carried Forward Deficit	8,574
Carlisle City Council Share	3,430
Cumbria County Council Share	857
Central Government Share	4,287

5.3 The estimated deficit on the collection fund of £3,429,462 is carried forward on the Balance Sheet and will be paid as part of the redistribution in 2022/23.

6.0 Summary Business Rates

6.1 Based upon current estimated figures, Business Rates income has performed well in 2021/22 and has exceeded revised budgeted expectations by an estimated £3,836,093, although this is primarily due to the different accounting treatment for S.31 grants compared to business rates income. The Council has achieved estimated additional income from Retained Business Rates income of £2,698,469 in 2021/22 and by participating in the Cumbria Pool has managed to retain £2,049,235 of this. The Council's business rates collection performance for 2021/22 was 97.89% compared with 94.38% in 2020/21; the reduction being down to the impact of COVID.

7.0 Impact on General Fund Reserves

7.1 As well as the Business Rates outturn position shown above, there have been some changes as a result of the final business rates position that do alter the position of general fund reserves shown in the table below.

	31/03/2022 £'000s	31/03/2023 £'000s	31/03/2024 £'000s	31/03/2025 £'000s	31/03/2026 £'000s	31/03/2027 £'000s
Prudent Level of Reserves	(3,100)	(3,100)	(3,100)	(3,100)	(3,100)	(3,100)
Council Resolution General Fund Reserve	(4,091)	(4,258)	(3,354)	(2,699)	(2,844)	(3,228)
Revised Level of Reserves	(4,091)	(4,258)	(3,354)	(2,699)	(2,844)	(3,228)
Transfers to/from reserves as highlighted in provisional GF Revenue Outturn Report (RD03/22 - 25/05/22)	(1,985)	1,968				
Remove estimated additional funding from Business Rates (RD03/22 - 25/05/22)	256					
Additional Funding from Business Rates	(3,836)					
<u>Transfers to Earmarked Reserves¹:</u> S.31 Grants	3,155					
Revised Reserves Balance	(6,501)	(4,700)	(3,796)	(3,141)	(3,286)	(3,670)

Note 1: Transfers to/(from) earmarked reserves subject to approval

Note 2: The Final Reserves Balance will be dependent on additional transfer as part of the Statement of Accounts including the final position on Business Rates.

7.2 The above table shows that the revised reserve balance will increase by £425,000 from the provisional outturn report (RD03/22) as a result of the overall anticipated income from Business Rates Retention and Pooling subject to further consideration by the Executive.

8.0 Risks

8.1 With the implementation of Business Rate Retention, the Council relies on Business Rate income to support its service delivery. Any significant loss of income would have a significant impact on the Council's Medium-Term Financial Plan.

9.0 Consultation

9.1 People Scrutiny Panel considered the report on 14 July 2022.

10. Conclusions and Reasons for Recommendations

10.1 The provisional outturn position and comments on performance will feed into the overall Revenue accounts for 2021/22.

10.2 Members are asked:

- (i) to note the provisional outturn position for Business Rates at 31 March 2022;
- (ii) to note the additional transfer to General Fund Reserves of £425,000 subject to the agreement of, or other recommendations from, the Executive;
- (iii) to approve the transfer to the Business Rates S.31 Grant earmarked reserve as outlined in paragraph 4.3.

11.0 Contribution to the Carlisle plan priorities

11.1 The collection of Council Tax and NNDR directly affects all residents receiving services from Carlisle City Council.

Contact details:

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Appendices attached to report:

- **Appendices attached to report:**

Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers:

- **None**
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CORPORATE IMPLICATIONS:

Legal – The Council has a statutory obligation to collect Council Tax (Local Government Finance Act 1992 and Council Tax (Administration and Enforcement) Regulations 1992 and NNDR (Local Government Finance Act 1988).

Property – No implications

Finance – Included within this report

Equality – This report raises no explicit issues relating to the public sector Equality Duty

Information Governance - No Implications