

Meeting Date: 5 July 2021  
 Portfolio: Finance, Governance and Resources  
 Key Decision: Yes: Recorded in the Notice Ref: KD09/21  
 Within Policy and Budget Framework YES  
 Public / Private Public

Title: BUSINESS RATES OUTTURN 2020/21  
 Report of: CORPORATE DIRECTOR OF FINANCE AND RESOURCES  
 Report Number: RD.13/21

**Purpose / Summary:**

This report summarises the 2020/21 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 the NNDR3 return and final confirmation of any business rates pooling gains for 2020/21.

**Recommendations:**

Members are asked to note the provisional outturn position for Business Rates at 31 March 2021 and approve the creation and transfer to a new earmarked reserve as outlined in paragraph 2.6.1

**Tracking**

Executive:	<b>5 July 2021</b>
Scrutiny:	<b>BTSP 15 July 2021</b>
Council:	<b>N/A</b>

## 1. BACKGROUND

1.1 The aim of this report is to:

- i) Advise Members of the current position on the 2020/21 Business Rates Accounts i.e. the total value of accounts raised and how much has been collected in the 2020/21 financial year.
- ii) 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 2 June 2021.

## 2. BUSINESS RATES PROVISIONAL OUTTURN AS AT 31 MARCH 2021

2.1 2020/21 is the eighth 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 2020/21, 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 £2.400m 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 £0.134m was expected for the Business Rate Multiplier Grant. A total of £5.869m was therefore expected to fund General Fund revenue activities.

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 2020/21 Outturn

There are three elements to the 2020/21 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.

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 2021/22 and will require some changes to the accounting of Collection Fund and General Fund balances.

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.

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 £22.315m 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

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 2021/22 in line with proper accounting practice and it will therefore be necessary to carry forward the General Fund surplus to offset the deficit into 2021/22 through an earmarked reserve.

## 2.6 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	(10,688)
Tariff payable	12,569
	1,881
Discretionary Reliefs Funded by S.31 Grant	(7,706)
<b>Total Net Retained Income</b>	<b>(5,825)</b>
Baseline Funding	(3,335)
Total Additional Income	<b>(2,490)</b>
Levy Payable (to Pool)	(1,245)
Income Retained	(1,245)

Therefore, the Council retains an estimated £1,245,368 and pays £1,245,368 into the pool. The total performance of the pool for 2020/21 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 £600,000 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 26% i.e. the Council gains £1,845,368 out of £2,490,737 growth, as opposed to £1,245,368 without pooling.

### 2.6.1 2020/21 Budget

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 2020 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	(134)
Budgeted Growth/Pooling	(2,400)
<b>Total Budgeted Funding</b>	<b>(5,869)</b>
Income due from Rates Retention per NNDR1	(17,018)
Deficit on Collection Fund Brought Forward	216
Tariff payable	12,569
Section 31 Grants for Funded reliefs <sup>1</sup>	(11,189)
Income due from Renewables Rate Growth	(371)
Enterprise Zone Reliefs	(469)
Levy Payable <sup>1</sup>	1,245
Pooling Redistribution <sup>1</sup>	(600)
<b>Total Net Retained Income against Budget</b>	<b>(15,617)</b>
<b>Total Additional Income to be returned to Reserves</b>	<b>(9,748)</b>

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

Therefore, £9.748m will be returned to reserves, however as mentioned in paragraph 2.5, 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 2021/22. This was estimated in January 2021 to be £9,462,618.

**Therefore, it is recommended that £9,463,000 of the additional income recorded in 2020/21 be transferred to an earmarked reserve at 31 March 2021 and released to General Fund in 2021/22. It is recommended that responsibility for this reserve rests with the Corporate Director of Finance and Resources and that approval to release the reserve can be given by the Corporate Director of Finance and Resources via an Officer Decision Notice.**

The remaining additional income balance is recommended to be returned to the General Fund Reserve balance.

## 2.6.2 Collection Fund

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 2019/20 the final deficit

on the Business Rates Collection Fund was £1,089,131 of which the Council's share was £435,653.

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

Carlisle City Council	£000
Balance Brought Forward Deficit	1,089
Net Rates Payable	(19,666)
Transition payments	528
Cost of Collection	178
Shares to Major Preceptors	42,248
Shares of Estimated Deficit B/Fwd (NNDR1)	(540)
Renewables	371
Enterprise Zone	298
Appeals Settled Provided for in 2019/20	(1,545)
New Appeals to be provided for 2020/21	665
Losses on Collection	200
In Year Deficit	22,737
<b>Total Carried Forward Deficit</b>	<b>23,826</b>
Carlisle City Council Share	9,530
Cumbria County Council Share	2,383
Central Government Share	11,913

The estimated deficit on the collection fund of £540,097 is carried forward on the Balance Sheet and will be paid as part of the redistribution in 2021/22.

## 2.7 Summary Business Rates

2.7.1 Based upon current estimated figures, Business Rates income has performed well in 2020/21 and has exceeded revised budgeted expectations by an estimated £9,748,000, 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 £2,490,737 in 2020/21 and by participating in the Cumbria Pool has managed to retain £1,845,368 of this. The Council's business rates collection performance for 2020/21 was 94.38% compared with 97.38% in 2019/20; the reduction being down to the impact of COVID.

### 3. Impact on General Fund Reserves

As well as the Business Rates outturn position shown above, there have been some very minor changes as a result of the final business rates position that do not alter the position of general fund reserves shown in the table below.

	31/03/2021 £'000s	31/03/2022 £'000s	31/03/2023 £'000s	31/03/2024 £'000s	31/03/2025 £'000s	31/03/2026 £'000s
<b>Prudent Level of Reserves</b>	<b>(3,100)</b>	<b>(3,100)</b>	<b>(3,100)</b>	<b>(3,100)</b>	<b>(3,100)</b>	<b>(3,100)</b>
Council Resolution General Fund Reserve	(3,134)	(3,601)	(3,213)	(3,058)	(3,077)	(3,129)
<b>Revised Level of Reserves</b>	<b>(3,134)</b>	<b>(3,601)</b>	<b>(3,213)</b>	<b>(3,058)</b>	<b>(3,077)</b>	<b>(3,129)</b>
Transfers to/from reserves as highlighted in provisional GFRevenue Outturn Report (RD05/21 - 02/06/21)	(1,895)	1,721				
Changes to General Fund Outturn Position	2					
Additional Funding from Business Rates	(9,749)					
Transfers to Earmarked Reserves <sup>1</sup> : S.31 Grants	9,463					
<b>Revised Reserves Balance</b>	<b>(5,313)</b>	<b>(4,059)</b>	<b>(3,671)</b>	<b>(3,516)</b>	<b>(3,535)</b>	<b>(3,587)</b>

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.

- 3.1 The above table shows that the revised reserve balance has increased by £284,000 from the provisional outturn report (RD05/21) as a result of the overall anticipated income from Business Rates Retention and Pooling.

### 4. RISKS

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.

### 5. CONSULTATION

- 5.1 Business and Transformation Scrutiny Panel will consider the report on 15 July 2021.

### 6. CONCLUSION AND REASONS FOR RECOMMENDATIONS

- 6.1 The provisional outturn position and comments on performance will feed into the overall Revenue accounts for 2020/21.

6.2 Members are asked to note the provisional outturn position for Business Rates at 31 March 2021 and approve the creation and transfer to a new earmarked reserve as outlined in paragraph 2.6.1

## **7. CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES**

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

**Contact Officer: Steven Tickner**

**Ext: 7280**

**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**

### **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