



# Understanding The Resource Implications of Completing NNDR3 2020/21

March 2021

## Purpose of the session

- To provide confirmation and expand understanding of the main resourcing issues arising from completing NNDR3 2020/21.
- Outline some of the main trends to take into account when making decisions in completing NNDR3 2020/21.
- Confirm how the government changes in response to COVID-19 work in practice, based on current guidance.
- Advise how these issues are likely to affect authorities' approaches to completing their accounts and the forms.
- Identify issues which are outstanding and areas which authorities will want to consider further, and what support is available.

## Background

- The NNDR3 records the outturn on business rates for a financial year. The form must usually be completed by 30 April, but this is expected to be delayed this year to be a month before the draft accounts.
- Although the outturn will differ from earlier forecasts, the amount the General Fund will receive in year the amount determined in the NNDR1. The actual outturn is recorded on an authority's CIES, but a MIRS adjustment protects the General Fund from immediate impacts.
- However, s31 grants (including for 2020/21 compensation) and the safety net or levy are determined by the actual outturn.
- This can lead to timing differences, so if an authority receives a safety net, it is likely that they will have a deficit to pay in in future years, and the safety net will 'double fund' the General Fund in the year of receipt.

## Background

- The example shows the impact of changes this year:

	2019/20	2020/21
	£m	£m
NNDR1 Forecast	-	11.0
Less Adjustment for 2020/21 increased retail relief		(6.3)
Less Adjustment for forecast reduced business rates income		(2.0)
Updated NNDR1 forecast (change only)	-	(8.2)
Final NNDR3 amount (change only)	-	-
S31 Grant (for levy purposes)	-	7.8
<b>Equals BRR income for the safety net / levy purposes</b>	-	<b>10.5</b>
Plus Top Up / (Tariff)	2.8	(8.5)
Plus Refund on 2020/21 Deficit		1.5
<b>Equals pre-levy / Safety net Income</b>	<b>2.8</b>	<b>3.5</b>
Less Levy	-	(0.3)
Plus Safety Net payment	-	-
<b>Equals post levy / Safety Net BRR income</b>	<b>2.8</b>	<b>3.2</b>
Plus Multiplier Cap adj x NNDR Income	0.0	0.1
Plus Multiplier Cap adj x S31 Grant	-	0.3
Plus Multiplier Cap adj x Top Up / Tariff	0.1	(0.3)
Plus Pooling (to be added locally)	-	-
Plus Pooling / Pilot Changes	-	-
Plus Renewable Energy income	0.0	0.0
Plus Changes to Baseline Need following the Reset		
Plus Negative RSG Adjustment Change to Baseline Need		
<b>Equals Forecast Resources Earnt In-Year</b>	<b>2.9</b>	<b>3.3</b>

This authority had a local share of £6.3m of extended reliefs, creating a deficit. Though this is offset by s31 grant.

In addition a £2m local share deficit was reported at NNDR1 in January.

They are still forecast to pay a levy.

## Background

- The example shows the impact of changes this year:

Related payments from the C/F to the G/F	2019/20	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m	£m
2018/19 related payments	(0.1)	(0.2)			
2019/20 related payments	0.0	0.0	0.0		
2020/21 related payments (normal)		11.0	(6.3)	0.0	
2020/21 related payments (spreading)			(0.7)	(0.7)	(0.7)
2021/22 related payments			11.4	0.0	0.0
2022/23 related payments				11.6	0.0
2023/24 related payments					11.8
2024/25 related payments					

This authority had a local share of £6.3m of extended reliefs, creating a deficit. Though this is offset by s31 grant.

In addition a £2m local share deficit was reported at NNDR1 in January.

General Fund payments in and out, relating to Business Rates	2019/20	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m	£m
Total Collection Fund Payment to General Fund	(0.2)	10.8	4.5	10.9	11.2
Plus Top up / (Tariff) (Gen Fund)	2.8	(8.5)	(8.5)	(8.7)	(8.9)
Plus S31 Grants (Gen Fund)	0.1	7.8	1.4		
Minus Movement to S31 Reserve		(6.3)			
Plus Release of S31 Reserve			6.3		
Plus (Levy) / Safety Net adj (Gen Fund)	0.0	(0.3)	(0.6)	0.0	0.0
Plus Renewable Energy	0.0	0.0	0.0	0.0	0.0
Plus Pooling / Pilot - Gains / Losses	0.0	0.0	0.0		
Plus 75% compensation on COVID losses		1.5			
<b>Business Rate Resources received in year</b>	<b>2.7</b>	<b>5.0</b>	<b>3.0</b>	<b>2.2</b>	<b>2.3</b>

Large favourable variance in-year, even after reliefs adjusted through reserves.

## Background

- The example shows the impact of changes this year:

	2019/20	2020/21
	£m	£m
NNDR1 Forecast	-	11.0
Less Adjustment for 2020/21 increased retail relief		(6.3)
Less Adjustment for forecast reduced business rates income		(2.0)
Updated NNDR1 forecast (change only)	-	(8.2)
Final NNDR3 amount (change only)	-	(4.0)
S31 Grant (for levy purposes)	✓	7.8
<b>Equals BRR income for the safety net / levy purposes</b>	-	<b>6.5</b>
Plus Top Up / (Tariff)	2.8	(8.5)
Plus Refund on 2020/21 Deficit		4.5
<b>Equals pre-levy / Safety net Income</b>	<b>2.8</b>	<b>2.5</b>
Less Levy	-	-
Plus Safety Net payment	-	0.1
<b>Equals post levy / Safety Net BRR income</b>	<b>2.8</b>	<b>2.6</b>
Plus Multiplier Cap adj x NNDR Income	✓ 0.0	(0.0)
Plus Multiplier Cap adj x S31 Grant	✓ -	0.3
Plus Multiplier Cap adj x Top Up / Tariff	✓ 0.1	(0.3)
Plus Pooling (to be added locally)	-	-
Plus Pooling / Pilot Changes	-	-
Plus Renewable Energy income	✓ 0.0	0.0
Plus Changes to Baseline Need following the Reset		
Plus Negative RSG Adjustment Change to Baseline Need		
<b>Equals Forecast Resources Earnt In-Year</b>	<b>2.9</b>	<b>2.6</b>

If at NNDR3 they report a further £4m deficit (for example).

Now they are due a safety net.

s31 grants on an outturn basis.

## Background

- The example shows the impact of changes this year:

Related payments from the C/F to the G/F	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
2018/19 related payments	(0.1)	(0.2)			
2019/20 related payments	0.0	0.0	0.0		
2020/21 related payments (normal)		11.0	(6.3)	(4.0)	
2020/21 related payments (spreading)			(0.7)	(0.7)	(0.7)
2021/22 related payments			11.4	0.0	4.0
2022/23 related payments				11.6	0.0
2023/24 related payments					11.8
2024/25 related payments					

Additional deficit disbursed in full in 2022/23 – so not spread.

General Fund payments in and out, relating to Business Rates	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Total Collection Fund Payment to General Fund	(0.2)	10.8	4.5	6.9	15.2
Plus Top up / (Tariff) (Gen Fund)	2.8	(8.5)	(8.5)	(8.7)	(8.9)
Plus S31 Grants (Gen Fund)	0.1	7.7	1.6		
Minus Movement to S31 Reserve		(6.3)			
Plus Release of S31 Reserve			6.3		
Plus (Levy) / Safety Net adj (Gen Fund)	0.0	0.1	(2.6)	0.0	0.0
Plus Renewable Energy	0.0	0.0	0.0	0.0	0.0
Plus Pooling / Pilot - Gains / Losses	0.0	0.0	0.0		
Plus 75% compensation on COVID losses		4.5			
<b>Business Rate Resources received in year</b>	<b>2.7</b>	<b>8.3</b>	<b>1.2</b>	<b>(1.8)</b>	<b>6.3</b>

Favourable variance is even larger, due to extra compensation and safety net.

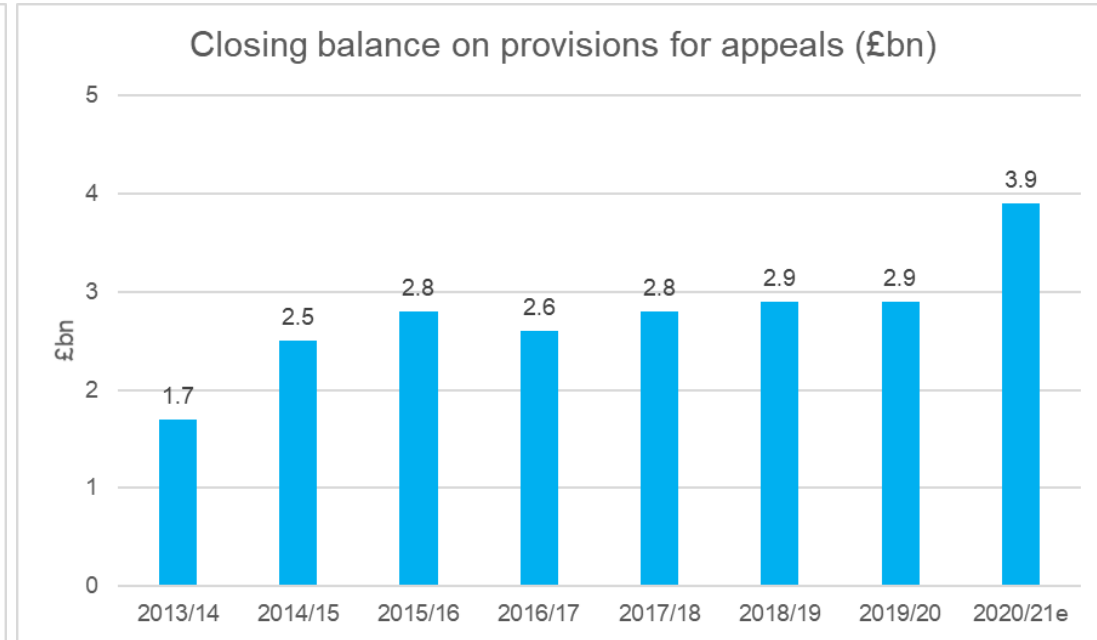
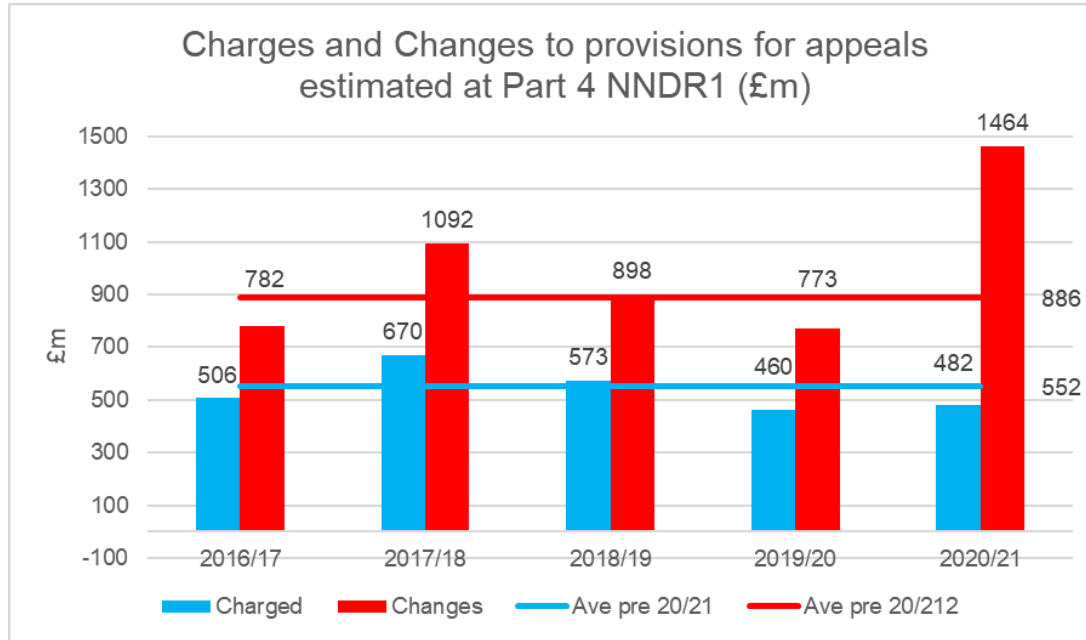
## Background

- Limited changes are expected to the form for 2020/21:
  - New reliefs will be reflected, and old ones removed. The accruals will also reflect the additional payments made based on April and October returns, as billing authorities will have large amounts to accrue to MHCLG.
  - Spreading of deficits will be reflected.
  - Possible that the form could calculate the compensation, but we think this is unlikely, because the forms do not calculate safety net or levy, as this cannot be calculated for preceptors without having all the billing authorities' data. This is the same for the compensation scheme:

£m	Billing Authority 1	Billing Authority 2	Billing Authority 3	Total	Preceptor
NNDR1 less s47 reliefs	10.0	5.0	7.5	<b>22.5</b>	22.5
NNDR3 less s47 reliefs	11.0	4.0	3.5	<b>18.5</b>	18.5
Difference	1.0	(1.0)	(4.0)	<b>(4.0)</b>	(4.0)
Compensation	0.0	0.75	3.0	<b>3.75</b>	3.0



## Trends to 2021/22: Provisions for appeals



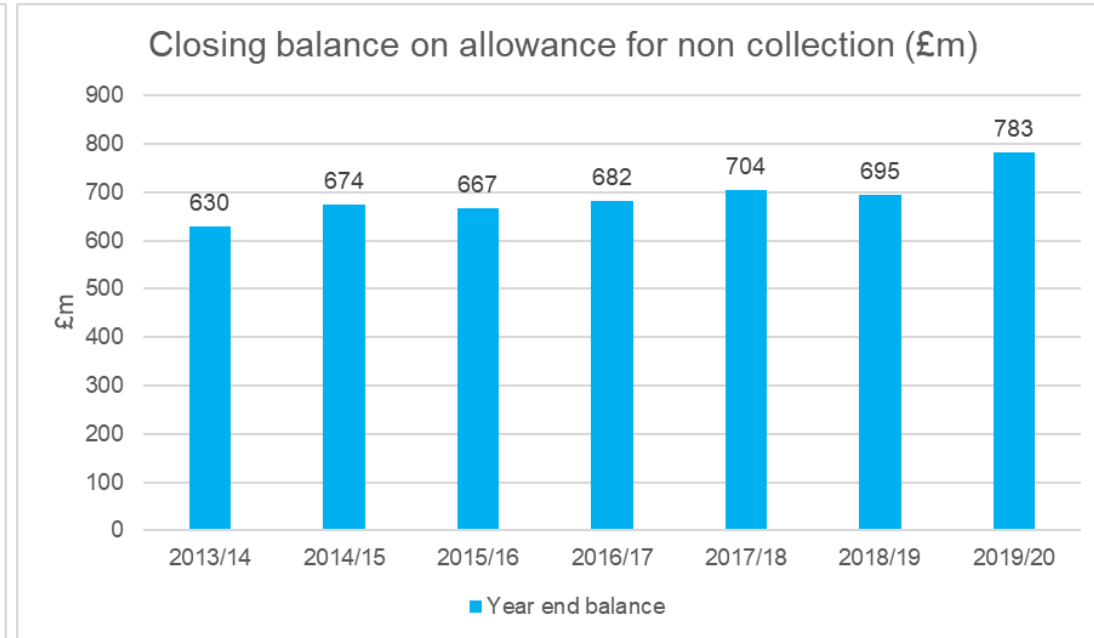
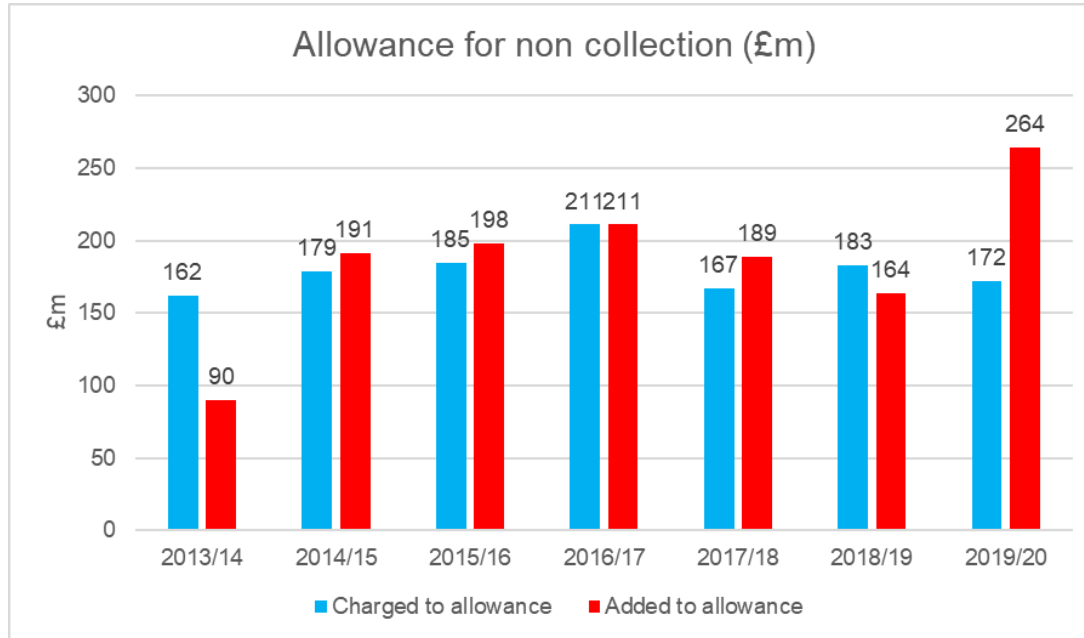
- 'Charges to' are not dissimilar and are £0.1bn below average for prior 4 years.

**But**

- 'Changes to' are significantly increased at £0.6bn above average for prior 4 years and £0.4bn above previous highest.

- The estimated closing balance on provisions is an increase of £1bn or 35% which is the highest it has been at and a higher increase even than in 2014/15.

## Trends to 2021/22: Allowance for non collection



- From 2013/14 no significant difference (on average £13m) between amounts charged and amounts added to the allowance.
- Decision on what to add to allowance in 2019/20 the first significant movement.
- Estimate for 2020/21 is for adding £646m.
- Closing balance on the allowance for non-collection increased by £65m (10%) 2013/14 to 2018/19.
- In 2019/20 the balance increased by £88m (13%).

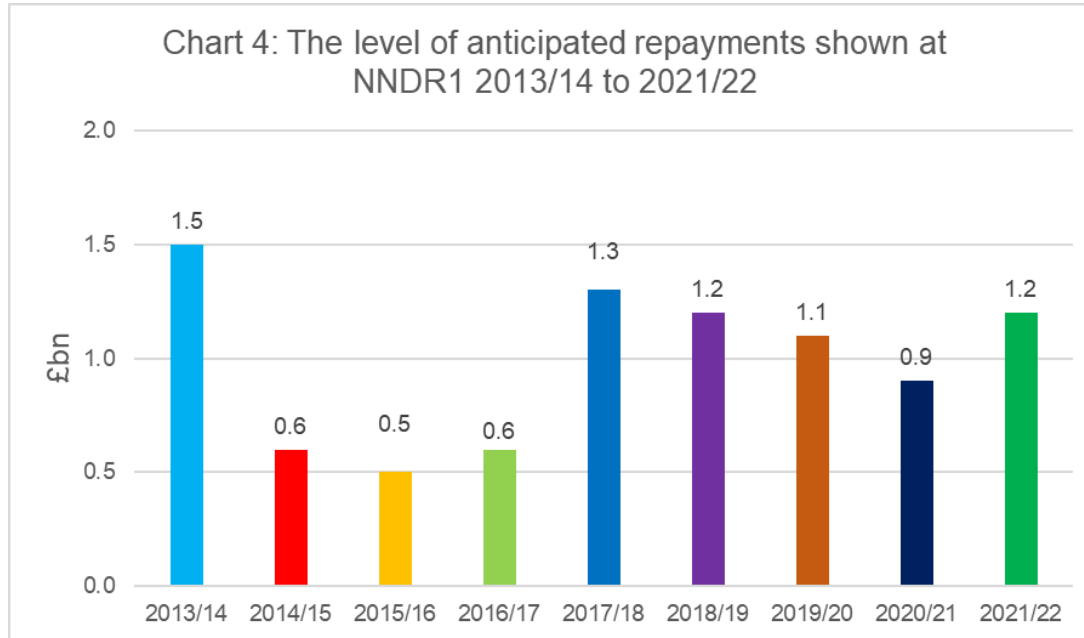
## Trends to 2021/22: Allowance for non collection

Table 5: Income losses due to COVID-19 by source of income (£ millions)			
	Jan-21	Feb-21	2020-21
Business rates	143.794	104.884	1,549.273
Council tax	104.557	85.135	1,134.406
Sales fees and charges	181.787	175.710	2,257.978
Commercial income	26.025	48.442	499.551
Other	14.613	14.110	201.904
<b>Total</b>	<b>470.775</b>	<b>428.281</b>	<b>5,643.113</b>

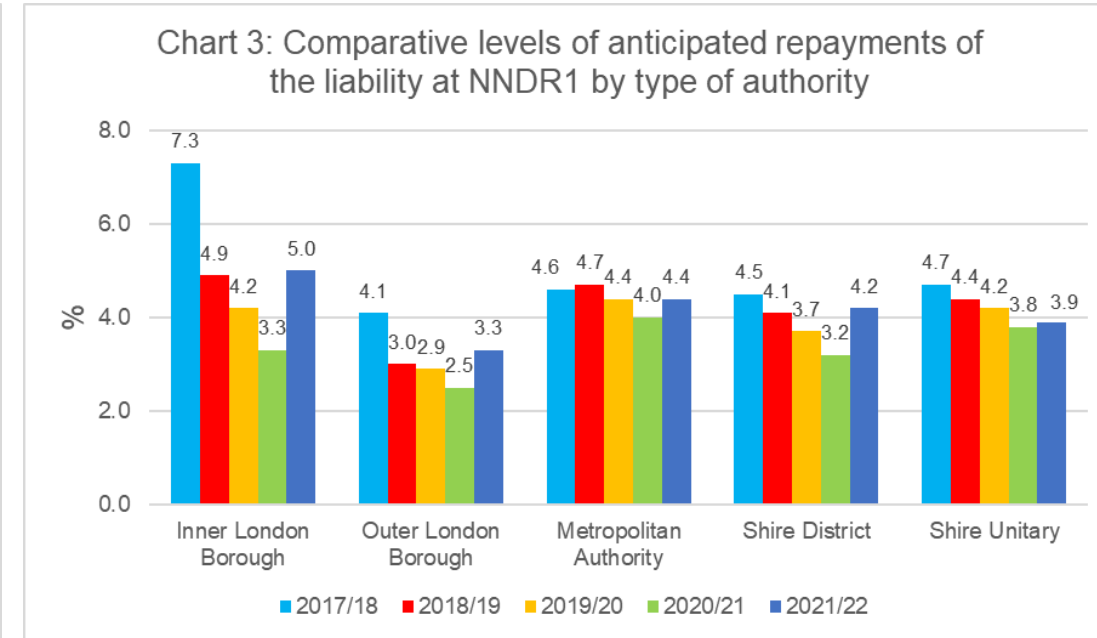
- DELTA Financial Impact Monitoring Returns from January and February 2021 (Round 10) show £1.5bn shortfall expected through the financial year.
- How does this compare with prior years? Do the Allowance for Non-Collection amounts at NNDR1 reflect this?
- Slight improvement from the figures reported at November 2020 (Round 6):

Table 41: Income losses due to COVID-19 by source of income (£ millions)			
	Aug-20	Sep-20	2020-21
Business rates	184.643	163.239	1,625.816
Council tax	144.168	128.336	1,506.086
Sales fees and charges	177.781	163.875	2,040.638
Commercial income	36.304	39.452	528.578
Other	17.646	17.922	223.718
<b>Total</b>	<b>560.542</b>	<b>512.823</b>	<b>5,924.836</b>

## Trends to 2021/22: Repayments estimated at NNDR1

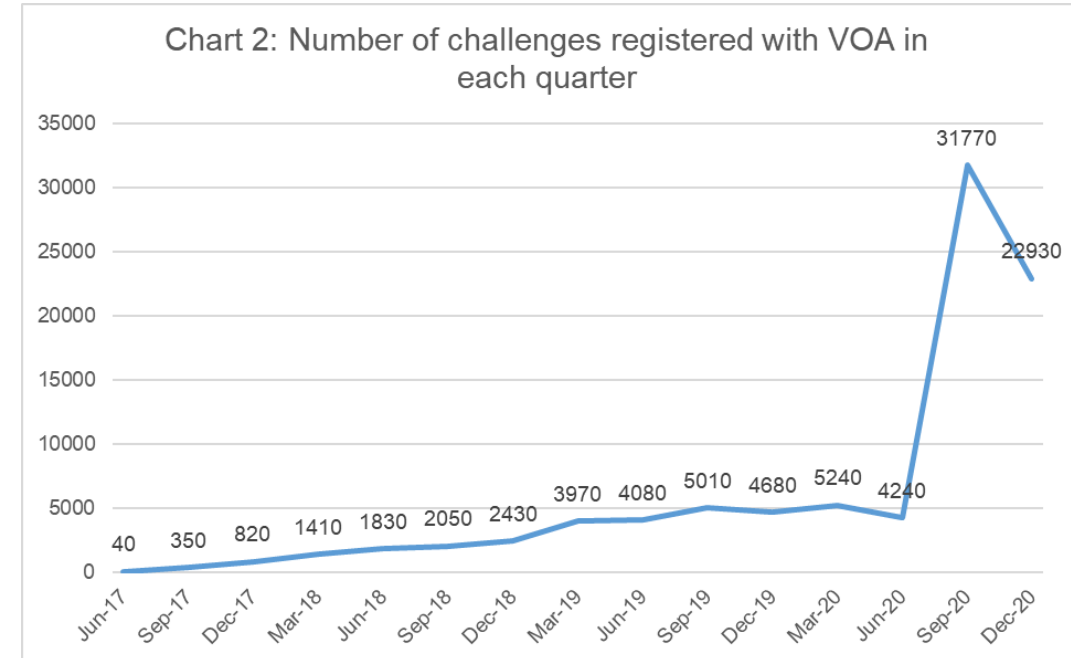
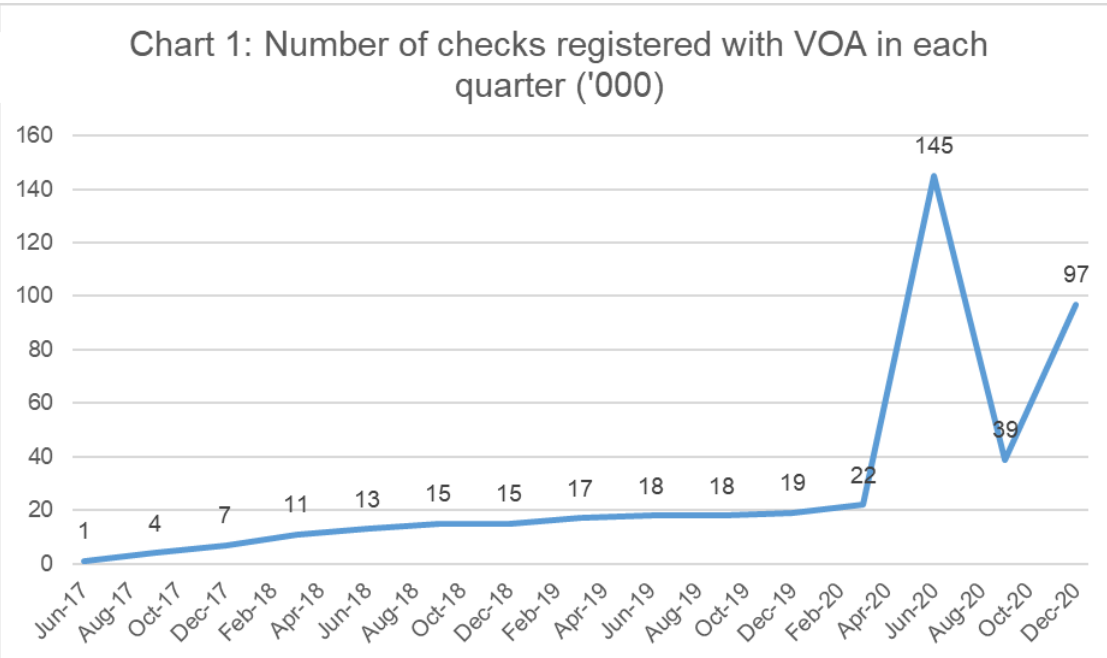


- Clear trend over 2017 Revaluation for declining levels of anticipated repayments.
- Increase in 2021/22 is largest single year change after the initial movement to 2014/15 and to 2017/18.



- Fall in % repayments was reversed in 2021/22 in all types of authority.
- % set aside by Inner London declined most over the period to 2020/21 (4.0%) and then increased the most between 2020/21 and 2021/22 (1.7%).

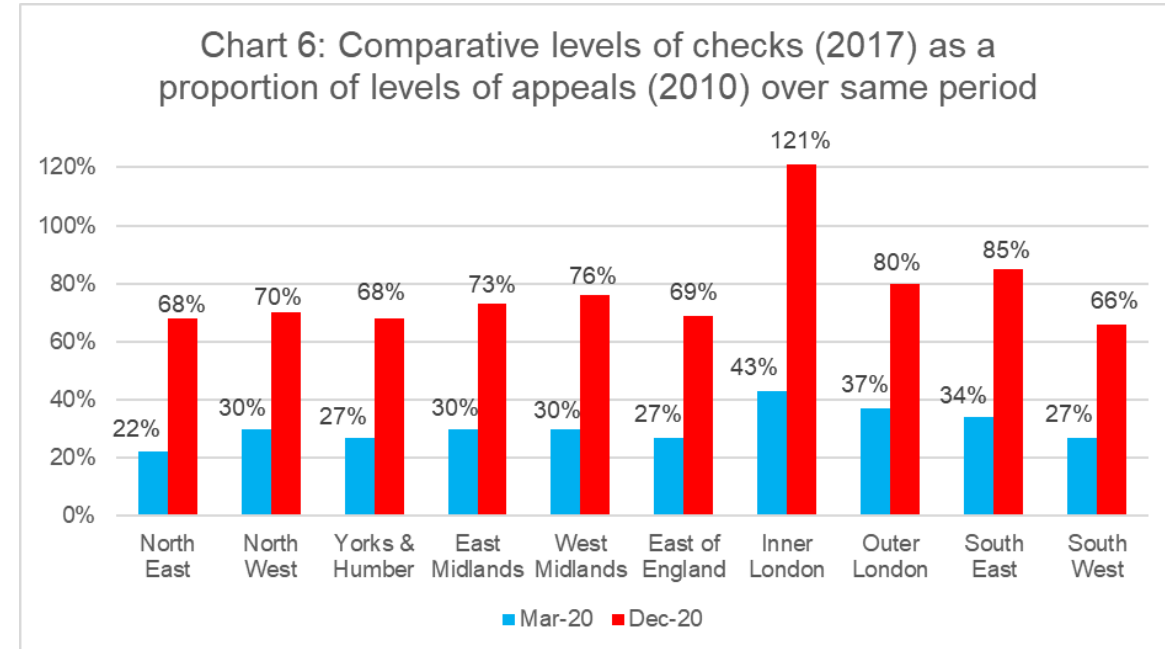
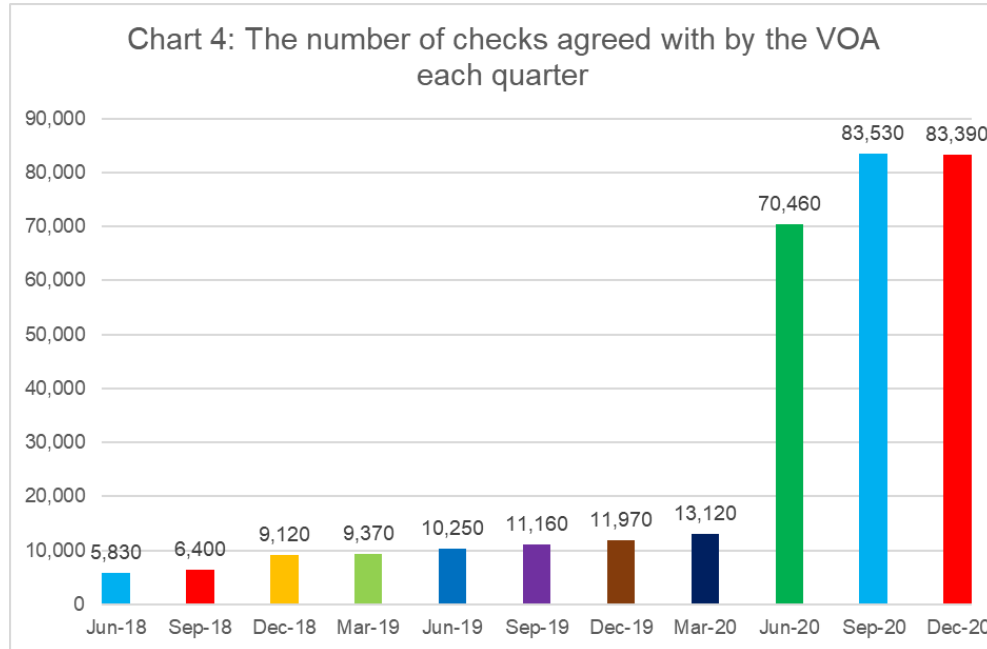
## Trends to 2021/22: Numbers of checks and challenges by quarter to December



- In each quarter of 2020/21, the number of checks has shot up, rising by almost 145,000 in quarter 1 and almost 100,00 on quarter 3.

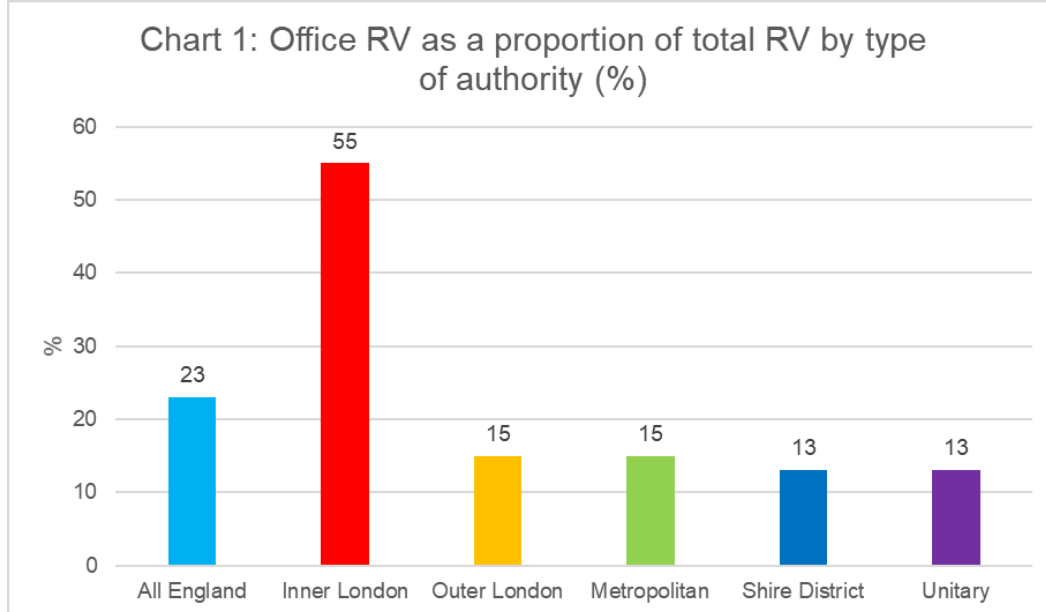
- On average a tenfold increase in the last two quarters compared to the average across the previous thirteen quarters.

## Trends to 2021/22: Numbers of checks agreed and relative volumes to December

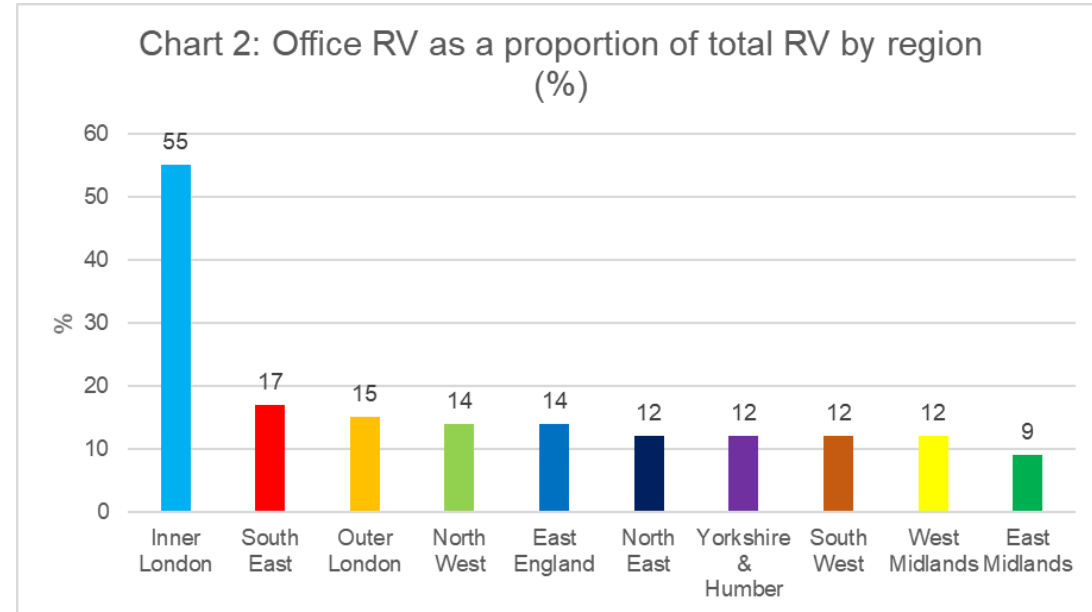


- The number of checks that were agreed with in each quarter had been gradually increasing, but there was a large step increase in this figure in the last three quarters.
- In every region the relative levels of checks on the 2017 List compared to the number of appeals on the 2010 List has increased significantly in the last three quarters up to December 2020 with the largest increase of 78% in Inner London.

## Office risk as a proportion of taxbase



- Outside of Inner London the RV of office space makes up between 13% and 15% of the total RV for the area.
- However in Inner London this rises to 55% which is four times as great as the average across the other types of authority.



- There is significant variation across regions with the proportion as a high as 17% in the South East compared to just 9% in the East Midlands.
- However these variances between regions outside of Inner London far outweighed by the variance to proportion of RV made up in Inner London at 55%.

## Business rates compensation scheme

- For business rates, the formula will be 75% of the difference, if positive, between:
  - NNDR1 local share of income less NNDR1 s47 (discretionary funded) reliefs
  - less
  - NNDR3 local share of income less NNDR3 s47 (discretionary funded) reliefs
- Authorities will similarly receive compensation in respect of disregarded amounts (e.g. for renewable energy or designated areas), adjusted for amounts already funded by s31 grants.
- This means that, in respect of business rates, authorities will be compensated for:
  - The impact of accounting adjustments for appeals and allowance for non-collection.
  - The impact of prior years' adjustments, including appeals paid out and debts written off, to the extent these are not paid from their existing provisions.
  - The impact of additional reliefs (e.g. properties which receive relief due to being unoccupied).
- However, they will not be compensated by this scheme for:
  - The impact of changes to funded reliefs (which are already fully compensated by s31 grants).
  - Reductions in s31 grants relating to reliefs granted other than under s47 (e.g. telecoms relief and the small business rates relief).



## Business rates compensation scheme

- There has not been an update on the compensation scheme, and it was not finalised with the final settlement. This is likely due to the issue of Material Change of Circumstance appeals (which we will cover shortly).
- Key issues arising relate to the s31 grants which are expected to be excluded:
  - Multiplier cap grant
  - Telecoms relief
  - Small business rates relief
- The guidance refers only to s47 reliefs (though it does also refer to calculating using the s31 grant figures from the NNDR1/3 form adjusting out the multiplier cap, so it's possible that some of these could end up covered).
- The government have indicated that they plan to make payments on account. These may be made using the NNDR1 Part 4, but this is not yet clear.

## Collection Fund deficit spreading

- Authorities will be aware that estimated deficits reported in January 2021 will be spread over the coming three years, rather than made good in full in 2021/22.
- There is no spreading of any deficits reported at NNDR3 (regardless of whether they are changes to funded reliefs, or 'real' deficits), the spread was fixed at NNDR1. Of course, it's possible that further spreading could be announced.
- The existing spreads will impact on cashflow, as precepts are based on the spread amount, rather than the full amount. For billing authorities, this will mean holding the cashflow impact of the central and preceptors' shares for the full three years where a deficit is spread.
- Of course, the extent to which this is an issue will depend on the extent to which the deficit has been realised in cash for the billing authority. If it relates to appeals provision, but the amounts have been collected, then there may not be a cashflow issue at all.
- Instalments for 2021/22 have been adjusted so that Major Precepting Authorities pay deficits relating to the extended reliefs in full in March 2022 rather than instalments through the year.
- This may leave billing authorities with a 'gap' if the s31 grant amounts are settled up with government first.

## Material Change of Circumstances

- Material Change of Circumstances (MCC) is defined in secondary legislation, and is a ground for appeal of a valuation (where “the rateable value shown in the list is inaccurate by reason of a[n] MCC which occurred on or after the day on which the list was compiled”).
- MCCs may be in respect of the physical state or physical enjoyment of the hereditament, the mode or category of its occupation, matters affecting the state of the locality in which the hereditament is situated, the amount of minerals/other substances in the hereditament, or the use of other premises situated in the hereditament’s locality.
- In addition, there is an exemption from charges for unoccupied premises which cannot legally be occupied. However, this does not apply to occupied premises. For business rates purposes, occupation is a complex concept, but, for example, storage of items of value to a business would likely count.
- The COVID-19 pandemic has meant that there is a risk of challenges to valuations. There has been speculation in the press, and a very significant increase in the numbers of requests for changes to valuations being submitted since March 2020. Potential reductions could be very large, and as local authorities are in large part funded from business rates, this will be a significant issue.
- Authorities will wish to seek advice from valuation experts, as business rates valuation is a complex and technical area. We anticipate that these issues will likely be contentious and end up in court.

## Material Change of Circumstances

- The government have laid secondary legislation to remove the impact of MCCs going forwards, and intend also (when time allows) to legislate to apply this retrospectively.

### The Valuation for Rating (Coronavirus) (England) Regulations 2021

UK Statutory Instruments ▶ 2021 No. 398 ▶ Regulation 2

#### Valuation of hereditaments

2.—(1) This regulation applies to a hereditament where, but for these Regulations, the rateable value shown in a 2017 list for that hereditament would be affected as a result of—

- (a) the UK Government's coronavirus response;
- (b) any requirements of, or advice or guidance from—
  - (i) a public authority in the United Kingdom;
  - (ii) the Scottish Government, the Northern Ireland Executive or the Welsh Government;
  - (iii) the government of a country or territory outside the United Kingdom;

in response to the serious and imminent threat to public health posed by the incidence and spread of severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2); or

- (c) measures taken by any person to ensure compliance with health and safety legislation.

(2) For the purpose of determining the rateable value of a hereditament to which this regulation applies for any day on or after 25th March 2021, in applying the provisions of sub-paragraphs (1) to (7) of paragraph 2 of Schedule 6 to the Local Government Finance Act 1988 it shall be assumed that—

- (a) on that day the response, requirement, advice or guidance referred to in regulation 2(1)(a) and (b) had not occurred; and
- (b) the measures necessary to ensure compliance with health and safety legislation are the measures that were necessary on 1st April 2015 to comply with such legislation.

## Material Change of Circumstances

- The impact of the pandemic on business premises will vary depending on their type:
  - Various premises have been required to close, and the value of storage space is likely to be lower than that of retail, office accommodation and so on.
  - Guidance and regulation (e.g. from the Health & Safety Executive) have been introduced which limit the numbers allowed into premises.
- In addition, these differing impacts will depend on physical characteristics of localities:
  - City centres may usually have large daytime populations in normal circumstances, but only very low footfall with offices closed and people working from home.
  - The impact of social distancing may mean that large parts of very tall buildings become effectively unusable if only one person at a time can use a lift.
- Some of these are dealt with by the change, but the government has yet to apply this retrospectively, so authorities will need to decide whether or not to rely on the government's stated intention.

## Provision Levels and Resources

- There is a great deal of uncertainty about the outcomes of potential Material Change of Circumstance (or other similar disputes to valuations, in terms of resources impacts). But authorities, at this point, have a decision to make about the level of provision to make. This will impact on resources:

### Appeals Paid

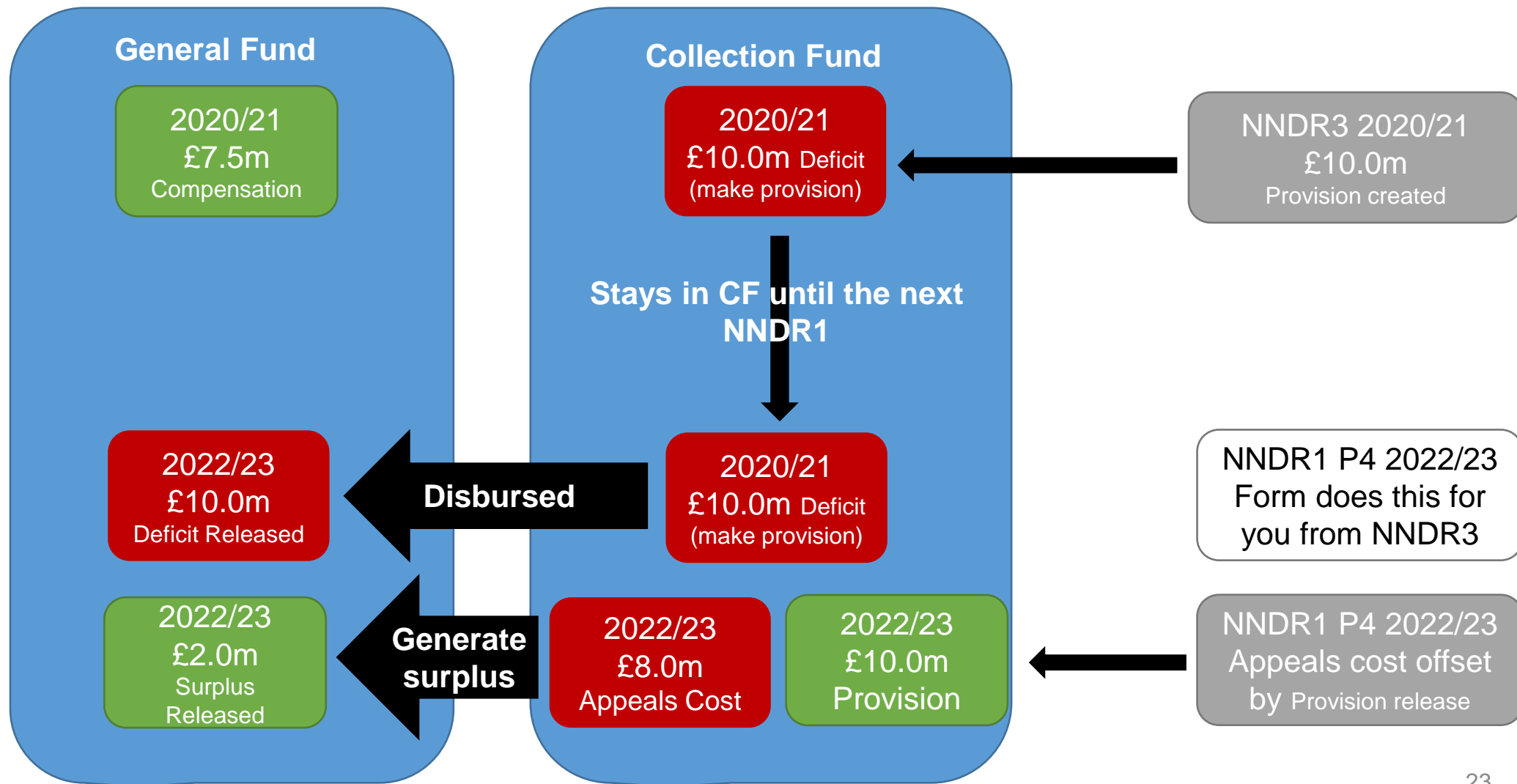
	2020/21		2021/22		Total	Impact of Choice £0.75m
Scenario 1: Provision	Provision made £(1m)	Funding received £0.75m	Appeals paid £(1m)	Provision release £1m	Total £(0.25m)	
Scenario 2: None	Provision made £0	Funding received £0m	Appeals paid £(1m)	No provision	Total £(1m)	

### No Appeals Paid

	2020/21		2021/22		Total	Impact of Choice £0.75m
Scenario 3: Provision	Provision made £(1m)	Funding received £0.75m	No appeals	Provision release £1m	Total £0.75m	
Scenario 4: None	Provision made £0	Funding received £0m	No appeals	No provision	Total £0	

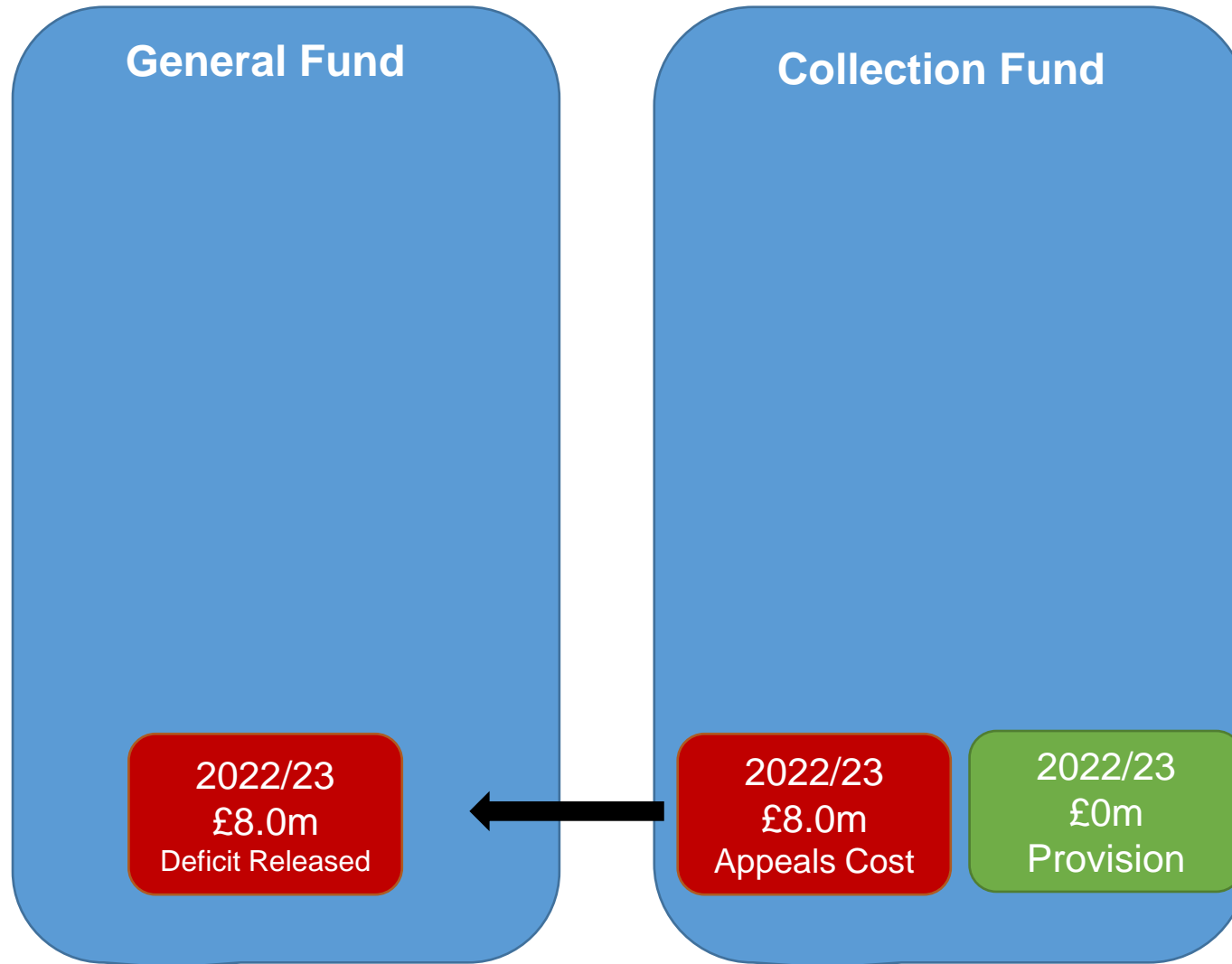
## Provision Levels and Resources – Scenario 1

- Under Scenario 1, the net impact is -£0.5m locally



## Provision Levels and Resources – Scenario 2

- Under Scenario 1, the net impact is -£8.0m locally





## Summary - LG Futures Support

- As per the previous slides, how the NNDR3 is completed will have an impact on local authorities' resources. Whilst there are unknowns (appeals & bad debt); providing the financial implications of local decisions are understood, local authorities can plan accordingly.
- These implications include:
  - Overall level resources.
  - COVID support that will be received.
  - Timing of when resources will be received.
  - Cash flow implications (interaction with preceptors / Central Gov.).
  - Pooling implications (so far as these can be assessed from a single authority, or only part of a pooling group).
- LG Futures is already supporting a number of areas understand the implications of the NNDR3 and also support them in understanding the various approaches that authorities are considering using in determining their provisions.
- If you would like to discuss how we could support your authority, please contact us.
- For MTRR subscribers, we will update your model with the data from your NNDR3.

## Summary

- Not a great deal of change to the form itself, but the various responses to COVID-19 mean some changes to authorities' approaches to the form and its implications:
  - Extended relief schemes mean authorities will have deficits.
  - In addition, authorities may have spread deficits at NNDR1 Part 4 in January 2021.
  - NNDR3 will determine the compensation and safety net / levy, but no opportunity to change the spreading.
- Some key issues outstanding:
  - Compensation Scheme – still to be finalised.
  - Material Change of Circumstances – legislative change pending, but will it happen? How effective will it be?
  - Form issue and deadline to be confirmed.
  - How will authorities respond to the changes to trends and data?
  - How will auditors approach 2020/21 – looking for more provisions, or challenging authorities?

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**Rupert Dewhirst**

07775 428 145

[rupert.dewhirst@lgfutures.co.uk](mailto:rupert.dewhirst@lgfutures.co.uk)



**Chris Roberts**

07376 674 442

[chris.roberts@lgfutures.co.uk](mailto:chris.roberts@lgfutures.co.uk)