

# Pooling of Non-Domestic Rates and Redistribution to Local Authorities in England Account 2012-13



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Presented to Parliament pursuant to Schedule 8, paragraph 1 of the Local Government Finance Act 1988

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## Management Commentary

Under the Local Government Finance Act 1988, non-domestic rates are to be paid to the Secretary of State who is then required to redistribute them to local authorities in accordance with the methodology set out each year in the Local Government Finance Report (England) made under section 78A<sup>1</sup> of the Act. The non-domestic rates are thus, in effect, pooled and redistributed. The operation of the pool is governed by Schedule 8 to the 1988 Act and regulations made under section 141. This account, relating to 2012-13, demonstrates that, taking one year with another, pooling is achieved and all rates received are redistributed to receiving authorities<sup>2</sup>. All these transactions appear elsewhere in the Consolidated Fund Account or the Department for Communities and Local Government's Account but this account serves to bring them together and demonstrate the working of the pool.

The collection of Business rates in 2012-13 was affected by the Business Rates Deferral Scheme. The deferral scheme enabled businesses to opt to defer payment of 3.2 per cent of their 2012-13 rates bill, with the deferred amounts being collected in equal proportions in 2013-14 and 2014-15. In total £19.329 million was deferred from the Central Ratings List in 2012-13. Amounts paid over by local authorities are gross of any deferrals. The amounts to be deferred through local authorities will be notified as part of the outturn adjustment process in 2013-14.

### Pooling and redistribution of non-domestic rates

Non-domestic rates are received:

- from billing authorities in respect of businesses in their areas other than those on the central non-domestic rating list;
- directly from businesses on the central non-domestic rating list; and
- from the Ministry of Defence in respect of contributions in lieu of rates for exempt properties occupied for the purposes of visiting forces, or an international headquarters or defence organisation in pursuance of arrangements made with any Government department ('visiting forces exempt properties').

An amount equivalent to the estimated total of these sums is distributed to receiving authorities in the same way as the Revenue Support Grant.

Non-domestic rates paid to the Secretary of State are credited to the Consolidated Fund. Amounts paid to authorities by the Secretary of State are paid out of monies provided by Parliament. There is no separate fund through which these monies pass. In order to avoid unnecessary cash transfers between the Secretary of State and authorities, only net payments are made<sup>3</sup>. However, the account shows separately all the non-domestic rate entitlements and liabilities which have been discharged, rather than net cash sums received or paid out.

### Receipts from billing authorities and others

A billing authority's non-domestic rating contribution into the pool represents the amount which would be payable by ratepayers in the authority's area on the assumption that if the authority acted diligently, after allowing for certain prescribed deductions (e.g. for costs of collection and recovery). A provisional calculation of the amount is made by the authorities before the start of the year on the basis of prescribed assumptions. The Secretary of State may make his own calculation if he believes that the authority's calculation is unlikely to have been made in accordance with regulations (made under paragraph 4(1) of Schedule 8). An authority may recalculate its provisional contribution up to once per quarter during the year if the difference between the recalculated amount and the previously calculated amount exceeds a prescribed threshold. The Secretary of State, if he believes that the recalculated amount is likely to have been calculated in accordance with the relevant regulations, must then adjust the authority's payments accordingly. The amounts paid to the Secretary of State on the basis of these

<sup>1</sup> Except where otherwise specified, all references to sections relate to sections of the Local Government Finance Act 1988 (as amended by, inter alia, Schedule 5 to the Local Government and Housing Act 1989, the Local Government Finance Act 1992 and the Non-Domestic Rating Act 1994).

<sup>2</sup> All references to billing authorities have, by virtue of section 144 (2), the same meaning as in Part I of the Local Government Finance Act 1992, and all references to receiving authorities relate to any billing authority or major precepting authority which also has, by virtue of section 144 (2), the same meaning as in that Part.

<sup>3</sup> See the Local Government Finance (Payments) (English Authorities) Regulations 1992 (S.I. 1992/2996) made under s 141.

calculations and recalculations are shown in the Account as 'Contributions from authorities'. The Department for Communities and Local Government calculates amounts due to the Secretary of State from ratepayers on the central rating list. Contributions in aid in respect of visiting forces' exempt properties are calculated by GVA on behalf of the Valuation Office Agency and paid to the Secretary of State by the Ministry of Defence.

Properties occupied for the purposes of a visiting force, or a headquarters or defence organisation designated by an Order in Council under section 1 of the International Headquarters and Defence Organisations Act 1964 are exempt from non-domestic rating, under paragraph 19A of Schedule 5, inserted by the Local Government and Rating Act 1997. Contributions in aid of rates for these exempt properties are made by the Secretary of State for Defence under section 59 of the 1988 Act.

### Prior year adjustments

After the end of the year, each authority must calculate its required contribution, arrange for it to be audited and send a copy of the unaudited claim form to the Secretary of State. On receipt of the unaudited claim, the Secretary of State must adjust the authority's payments to accord with this calculation, either by refunding any sums overpaid by the billing authority or requiring additional payments from the authority as appropriate. If the calculation is changed as a result of the audit, the Secretary of State must make further adjustments to agree with the audited calculation.

Any subsequent changes to the amount payable to the authority in respect of the relevant financial year (which might occur, for example, because of appeals which may retrospectively alter rateable values) are treated as 'prior year adjustments' to the pool contribution for a subsequent year.

### Distribution of the pool

An amount equivalent to the Secretary of State's estimate of the yield of non-domestic rates is distributed to receiving authorities each year. The sum to be distributed (the 'distributable amount') is calculated by the Secretary of State before the financial year using estimates of the items to be credited and certain items to be debited to the account in the year (paragraph 9 of Schedule 8). However, it is unlikely that the aggregate of payments into the pool in any one year will exactly equal the distributable amount. Any surplus or deficit on the account is carried forward.

### Statutory background

The Account is prepared under paragraph 1 of Schedule 8 to the Local Government Finance Act 1988 and shows:

- i sums received by the Secretary of State in 2012-13
  - a under section 54 in respect of non-domestic rates paid by ratepayers on the central rating list;
  - b under section 59 in respect of contributions in aid of non-domestic rating in respect of visiting forces' exempt properties;
  - c under paragraph 5(5) of Schedule 8 in respect of the provisional amount of non-domestic rates estimated by billing authorities to be collectable in 2012-13; and
  - d in respect of the additional rates collected by billing authorities in respect of 2011-12 and previous years, following the calculation of the final amounts of non-domestic rates due for those years under paragraph 5, or regulations under paragraph 5(15), of Schedule 8, and in respect of visiting forces exempt properties and from ratepayers on the central rating list following recalculations of the amounts due.

- ii payments made by the Secretary of State in 2012-13
  - a in respect of the repayments to billing authorities of excess contributions following the calculation of the final amounts of non-domestic rates due for 2011-12 and previous years under paragraph 5(10), 5(14) or regulations under paragraph 5(15) of Schedule 8, and to ratepayers on the central rating list following recalculations of the amounts due; and
  - b under paragraph 12 in respect of non-domestic rates distributed to receiving authorities in the same way as Revenue Support Grant.

## Review of 2012-13

In 2012-13 the Secretary of State received £23,174 million (2011-12 £21,556 million) of non-domestic rates and paid £23,277 million (2011-12 £19,773 million) to authorities. The amount received also included adjustments from the 2011-12 period.

At the end of 2012-13, amounts of non-domestic rates due for 2011-12 and earlier years had been determined in respect of all authorities.

After taking account of the accumulated surplus of £219.559 million carried forward from the previous financial year, the overall balance on the account at the end of 2012-13 is a cumulative surplus of £116.704 million.

## Future developments and going concern

Following the passing of the Local Government Finance Act 2012, Business Rates Retention replaced the system for the distribution of National Non Domestic Rates from 1 April 2013.

The most significant change under Business Rates Retention will be the local retention of 50 per cent of collected business rates. This will also reduce business rates income for the Consolidated Fund by 50 per cent.

From 2013-14 onwards, two new Business Rates Retention accounts will be produced. These will be the Business Rates Retention Main Rating Account and the Levy Account.

The Local Government Finance Act 2012 amended the Local Government Finance Act 1988 which required the production of this Account. Although the existing system for the distribution of National Non Domestic Rates ended on 31 March 2013, a final White Paper Account will be produced in 2013-14, under a Statutory Instrument, to record the 2012-13 outturn adjustments which become payable during 2013-14. It is management's judgement that it remains appropriate to prepare the 2012-13 White Paper Account on a going concern basis as this is a cash-based Account with no associated assets or liabilities.

*Sir Bob Kerslake*  
Accounting Officer  
Department for Communities and Local Government

24 June 2013

## Statement of Accounting Officer's responsibilities

Under paragraph 1 of Schedule 8 to the Local Government Finance Act 1988 the Secretary of State is required to prepare an Account (to be called a Non-Domestic Rating Account) for each financial year in the form directed by the Treasury. An Accounting Officer is appointed for the account. The account is prepared on a cash basis and must properly present the receipts and payments for the financial year and the balance held at year end.

In preparing the Accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to observe the Accounts Direction issued by HM Treasury including the relevant accounting and disclosure requirements and apply suitable accounting policies on a consistent basis.

HM Treasury has designated the Permanent Head of the Department as Accounting Officer. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records are set out in *Managing Public Money* published by HM Treasury.

# The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the Pooling of Non-Domestic Rates and Redistribution to Local Authorities in England Account for the year ended 31 March 2013 under the Local Government Finance Act 1988. The financial statements comprise: the Non-Domestic Rating Receipts and Payments Account, the Statement of Balances and the related notes. These financial statements have been prepared under the accounting policies set out within them.

## Respective responsibilities of the Accounting Officer and Auditor

As explained more fully in the Statement of Accounting Officer's responsibilities, the Accounting Officer is responsible for the preparation of the financial statements in accordance with the Local Government Finance Act 1988 and HM Treasury directions made thereunder. My responsibility is to audit, certify and report on the financial statements in accordance with the Local Government Finance Act 1988. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the Pooling of Non-Domestic Rates and Redistribution to Local Authorities in England Account and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accounting Officer; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Management Commentary to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the receipts and payments recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

## Opinion on regularity

In my opinion, in all material respects the receipts and payments recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

## Opinion on financial statements

In my opinion:

- the financial statements properly present the receipts and payments of the Pooling of Non-Domestic Rates and Redistribution to Local Authorities in England Account for the year ended 31 March 2013; and
- the financial statements have been properly prepared in accordance with the Local Government Finance Act 1988 and HM Treasury directions issued thereunder.

**Opinion on other matters**

In my opinion:

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which I report by exception**

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit.

**Report**

I have no observations to make on these financial statements.

*Amyas C E Morse*  
Comptroller and Auditor General

26 June 2013

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## Receipts and Payments for the year ended 31 March 2013

<b>Receipt</b>	<b>Current Year 12-13 £000</b>	Previous Year 11-12 £000
Balance as at 1 April 2012	<b>219,559</b>	-1,564,359
Contributions from authorities:	<b>21,317,613</b>	20,228,844
Contributions from ratepayers on the central non-domestic rating list:	<b>1,273,385</b>	1,251,264
Contributions in aid in respect of visiting forces exempt properties:	<b>12,040</b>	8,727
Gross additional receipts as a result of the final recalculations for 2011-12 and previous years:	<b>570,672</b>	67,622
Balance as at 31 March 2013	<b>-116,704</b>	-219,559
	<b><u>23,276,565</u></b>	<u>19,772,539</u>
<b>Payments</b>	<b>Current Year 12-13 £000</b>	Previous Year 11-12 £000
Sums paid to receiving authorities as the distributable amount for 2012-13:	<b>23,119,000</b>	19,000,000
Sums paid to billing authorities as a result of the final recalculations for 2011-12 and previous years:	<b>138,434</b>	744,304
Sums paid to Central List ratepayers as a result of in year and previous years adjustments:	<b>19,131</b>	27,168
Sums paid to visiting forces for exempt properties as a result of in year and previous year adjustments.		1,067
	<b><u>23,276,565</u></b>	<u>19,772,539</u>

### Notes:

- 1 Excess of payments over receipts in 2012-13 is £102,854,987
- 2 Excess of payments over receipts for 2011-12 is £1,783,915,917

## Statement of Balances as at 31 March 2013

	<b>£000</b>	£000
	<b>2012-12</b>	2011-12
Cumulative total of receipts over payments as at 1 April:	<b>£219,559</b>	-£1,564,359
Less excess of amounts distributed over contributions collected for the year	<b>-£102,855</b>	£1,783,918
Cumulative total of receipts over payments at 31 March 2013	<b><u>£116,704</u></b>	<u>£219,559</u>

*Sir Bob Kerslake*  
 Accounting Officer  
 Department for Communities & Local Government

24 June 2013

## Notes

### 1 Accounting Policies

- 1.1 The Account has been prepared in accordance with Schedule 8 to the Local Government Finance Act 1988 and HM Treasury Direction. It has been prepared on a cash basis with no provision for accruals and in a form directed by the Treasury.
- 1.2 Authorities are required to calculate their non-domestic rate contribution for the year before it begins (the provisional amount; paragraph 5 (2) of Schedule 8 – although under certain circumstances they may recalculate the provisional amount during the year), and again after it ends (paragraph 5 (6)). The provisional amount is paid during the year in such instalments as the Secretary of State directs (paragraph 5 (5)). Whilst the account shows the full amounts of contributions from authorities and the distributable amount, in practice these items are netted off against each other and only net payments are made. This avoids unnecessary cash transfers between the Secretary of State and local authorities.

### 2 Notes to the Account

- 2.1 The Secretary of State received contributions in aid of non-domestic rating (section 59) totalling a net £12.040 million from the Ministry of Defence in respect of exempt hereditaments occupied by visiting forces in 2012-13.
- 2.2 The outturn adjustments made for 2011-12 and earlier years comprised payments of £157.6 million and receipts of £570,672 million.
- 2.3 Any excess of receipts collected over payments made is represented on the account as a cumulative total of receipts over payments at the accounting date. This is purely a notional representation. All receipts accounted for and collected in year are paid over to the Consolidated Fund in the year of collection and all payments accounted for in year are made to the recipients in year. The payments to Local Authorities are equal to amounts agreed in the Spending Reviews as adjusted by Local Government Settlements.
- 2.4 The account is audited by the Comptroller and Auditor General. The National Audit Office charges a notional cost of £22,000 to DCLG for the external audit work performed on the NNDR white paper account and this is reported in the DCLG Group Accounts.
- 2.5 Under the Local Government Finance Act 2012, the distribution of National Non Domestic Rates was replaced with the Business Rates Retention scheme with effect from 1 April 2013. The 2012 Act also amended the Local Government Finance Act 1988 as at the same date which required the production of this Account. Although the existing system for the distribution of National Non Domestic Rates ended on 31 March 2013, a final White Paper Account will be produced in 2013-14, under a Statutory Instrument, to record the 2012-13 outturn adjustments which become payable during 2013-14. It is management's judgement that it remains appropriate to prepare the 2012-13 White Paper Account on a going concern basis as it is a cash-based Account with no associated assets or liabilities. Two new accounts will be produced from 2013-14 onwards (the Rating Account and the Levy Account) that will report transactions in relation to the Business Rates Retention scheme.

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