

Presented pursuant to Local Government Finance Act 1988, c.41. 8, para 1

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# Pooling of Non-Domestic Rates and Redistribution to Local Authorities in England Account 2007-2008

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# Pooling of Non-Domestic Rates and Redistribution to Local Authorities in England Account 2007-2008

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# Contents

	Page
Management Commentary	2
Statement of Accounting Officer's responsibilities	5
Statement on Internal Control	6
The Certificate and Report of the Comptroller and Auditor General	9
Non-Domestic Rating Account	11
Statement of Balances	12
Notes to the Financial Statements	13

## 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 2007-08, 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 Resource Account for the Department for Communities and Local Government, but this account serves to bring them together and demonstrate the working of the pool.

### 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 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 as items of account 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 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 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 the Valuation Office Agency and paid to the Secretary of State by the Ministry of Defence.

1 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).

2 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.

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

## 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 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 for 2007-2008 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 2007-2008
  - 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 2007-2008;
  - d in respect of the additional rates collected by billing authorities in respect of 2006-2007 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; and
  - e under paragraph 2 (1) (d) of Schedule 8<sup>4</sup> the amount contributed by the Secretary of State to make good the loss of non-domestic rate revenue resulting from transitional arrangements.
- ii payments made by the Secretary of State in 2007-2008
  - 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 2006-2007 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.

<sup>4</sup> Sub-paragraph (d) was inserted into paragraph 2(1) of Schedule 8 by section 5(1) of the Non-Domestic Rating Act 1992, was amended by section 2 of the Non-Domestic Rating Act 1993 and has effect by virtue of, and was further amended by, section 3 of the Non-Domestic Rating Act 1994.

## Review of 2007-2008

In 2007-2008 the Secretary of State received £18,924.87 million of non-domestic rates and paid to authorities £18,952.83 million.

At the end of 2007-2008, amounts of non-domestic rates due for 2006-2007 and earlier years had not been determined in respect of 22 authorities. 13 of these were resolved before the end of May 2008. As and when the outstanding returns are finalised, the resulting payments to or by the Secretary of State will be reflected in the Non-Domestic Rating Account for 2008-2009.

After taking account of the accumulated deficit of £421.937 million carried forward from the previous financial year, the overall balance on the account at the end of 2007-2008 is a cumulative deficit of £393.984 million. An adjustment has been made to the distributable amount for 2008-2009 in order to take account of the forecast deficit.

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. Because the Secretary of State for Defence failed to pay the CILOR due for 2005-2006 this amount and that due for 2006-2007 were received in 2007-2008 totalling (after an adjustment for prior years) £19.975 million.

*Chris Wormald*  
Additional Accounting Officer  
Department for Communities and Local Government

10 July 2008

## Statement of Accounting Officer's responsibilities with respect to the Account

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.

The relevant responsibilities of Accounting Officers, including their responsibility for the propriety and regularity of the public finances for which they are answerable, and for the keeping of proper records, are set out in the Accounting Officers' Memorandum issued by the Treasury and published in '*Managing Public Money*'. Under the terms of the Accounting Officers' Memorandum, the relationship between the Department's principal and additional Accounting Officers, together with their respective responsibilities, is set out in writing.



# Statement on Internal Control

## Introduction

This statement is given in respect of the White Paper Account for the pooling of the National Non Domestic Rates which was operated by the Department for Communities and Local Government (CLG).

## Scope of responsibility

The Principal Accounting Officer has responsibility for maintaining a sound system of internal control that supports the achievement of the Department for Communities and Local Government's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which he is personally responsible in accordance with the responsibilities assigned to him in Managing Public Money.

In addition, some of the responsibilities are delegated to Additional Accounting Officers and the relationship with the Principal Accounting Officer is set out in written statements. I am the Additional Accounting Officer for Request for Resources 2 and the National Non Domestic Rates.

Within the Department the Principal Accounting Officer delegates authority for management and accountability of resources to Directors-General, including budget provision for the year ahead, programme near cash and capital budgets, and administration allocations. Directors-General sub-delegate this authority to their Directors and Deputy Directors. The Principal Accounting Officer requires all submissions to Ministers which have financial implications to be cleared with Finance Directorate and Heads of Finance who support Directors-General.

Within the Local Government and Regeneration Group, as Additional Accounting Officer, I have responsibility for risk management, and the maintenance and operation of the system of internal control. I sign a statement relating to the system which is reproduced within the White Paper accounts for the National Non Domestic Rates.

## The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; It can therefore only provide a reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Department for Communities and Local Government for the year ended 31 March 2008 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

## Capacity to handle risk

Risk is identified, assessed, managed and reviewed within the department to ensure the efficient, effective and economical delivery of the objectives, targets and business.

Over the past year, the Department has strengthened its corporate governance and risk management process. The Delivery Sub Committee of the Board provides additional scrutiny, focussed specifically on the effective management of risk across our key programmes.

The introduction of Programme Boards to manage our business across the Department has strengthened our capacity to handle risk with nominated Senior Responsible Officers accountable for the effective management and escalations of risks within their programmes.

## The risk and control framework

During 2007-2008 risk processes and assurance were applied as follows

- The departmental Board reviewed the critical risks to departmental business and the actions being taken to mitigate them on a monthly basis through the Board risk register.
- The Audit & Risk Committee under the independent chairmanship of a Non-Executive Member of the Board reviewed and endorsed the approach to risk management and corporate governance across the Department.
- The key Programme Boards across the Department regularly review their risks and escalate strategic and cross cutting risks to the departmental Board through monthly reports.
- The Delivery Sub Committee of the Board provides scrutiny of the highest risk programmes, focussing its time on assuring that the key risks are being effectively managed.
- Directors and heads of unit within the Department reported how they were managing risk through their Statement on Internal Control returns provided to me at mid-year and at the end of the financial year.
- In addition to these Department-wide risk processes and actions to achieve assurance, the team in Local Government Finance Directorate which collects and re-distributes non-domestic rates ensures strict separation of functions, systematic double-checking of all transactions, regular audit and security checks to ensure the robustness of systems, and specific procedures for verifying the authenticity of those who request changes to local authority bank details. I hold monthly monitoring meetings with the team, to ensure that these processes are in place, are being applied and continue to be fit-for-purpose.

The Department has invested in a significant training programme to build the skills of staff in managing Programmes and Projects. This training has a specific focus on risk management as part of our ongoing commitment to continue to strengthen risk management across the Department.

By reviewing data held and processes in place, the Department has ensured that it is compliant with the recently announced minimum requirements for personal data handling and in certain areas has chosen to apply additional measures (e.g. code of conduct, increased communications). By increasing general communication and setting up a group to regularly review personal data handling progress and risk management, we have also increased assurance that the departmental family is aware of its obligations and that best practice is shared to further manage this risk.

## Review of effectiveness

As an Additional Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the work of internal auditors and the executive managers within the department who have responsibility for the development and maintenance of the internal framework, and comments made by external auditors in their management letters and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board, the Audit and Risk Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The Principal Accounting Officer requires all Directors and heads of unit within the Department to complete a return at mid-year and end-year providing a self-assessment of how well they have managed their corporate responsibilities. This encompasses: (a) strategy, planning, monitoring and review, (b) risk management, (c) relationship with Agencies, Non-Departmental Public Bodies and Government Offices for the Regions, (d) system of financial management and control, and (e) other management responsibilities. All returns must be counter-signed by relevant Directors-General.

An analysis of returns and draft Statements on Internal Control provided is presented to the Audit & Risk Committee. At mid-year, the Committee recommends any actions necessary to address any significant internal control concerns. At end-year, the Committee advises me whether I have the necessary level of assurance from senior colleagues in order to sign this Statement on Internal Control. No significant internal control issues were identified.

*Chris Wormald*  
Additional Accounting Officer  
Department for Communities and Local Government

10 July 2008

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

I certify that I have audited the financial statements under the Local Government Finance Act 1988.

## Respective responsibilities of the Accounting Officer and Auditor

The Accounting Officer is responsible for the preparing the Management Commentary and the financial statements in accordance with the Local Government Finance Act 1988 and directions made thereunder by HM Treasury and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements properly present the receipts and payments and are properly prepared in accordance with the Local Government Finance Act 1988 and directions made thereunder by HM Treasury. I report to you whether, in my opinion, certain information given in the Management Commentary is consistent with the financial statements. I also report whether in all material respects the receipts and payments have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if proper accounting records have not been kept, if I have not received all information and explanations required for my audit, or if information specified by HM Treasury is not disclosed.

I review whether the statement on Internal Control reflects compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the corporate governance procedures or the risk and control procedures.

I read the other information contained in the Management Commentary and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

## Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinions

### **Audit opinion**

In my opinion

- the financial statements properly present the receipts and payments and the balances held at that date, in accordance with the Local Government Finance Act 1988 and directions made thereunder by HM Treasury, for the year ended 31 March 2008;
- the financial statements have been properly prepared in accordance with the Local Government Finance Act 1988 and directions made thereunder by HM Treasury;
- information given in the Management Commentary is consistent with the financial statements.

### **Audit opinion on regularity**

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

### **Report**

I have no observations to make on these financial statements.

*TJ Burr*  
Comptroller and Auditor General

16 July 2008

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## Non-Domestic Rating Account 2007-2008

Account, prepared under the Local Government Finance Act 1988 (c.41 Schedule 8) of receipts and payments of the first Secretary of State

	<b>Current Year £000</b>	Previous Year £000
<b>Receipts</b>		
Balance as at 1 April 2007	<b>(421,937)</b>	(791,043)
Contributions from authorities	<b>17,648,496</b>	17,235,473
Contributions from ratepayers on the central non-domestic rating list	<b>1,184,960</b>	1,148,394
Contributions in aid in respect of visiting forces exempt properties	<b>19,975</b>	0
Gross additional receipts as a result of the final recalculations for 2006-2007 and previous years	<b>71,441</b>	192,647
Balance as at 31 March 2008	<b>449,892</b>	421,937
	<b>18,952,827</b>	18,207,408
<b>Payments</b>		
Sums paid to receiving authorities as the distributable amount for 2007-2008	<b>18,500,000</b>	17,500,000
Sums paid to billing authorities as a result of the final recalculations for 2006-2007 and previous years	<b>452,827</b>	707,408
	<b>18,952,827</b>	18,207,408

### Notes

- 1 Excess of payments over receipts in 2007-2008 is £27,952,483
- 2 Excess of payments over receipts for 2006-2007 is £360,106,230

## Statement of Balances as at 31 March 2008

	<b>2007-2008</b>	2006-2007
	<b>£000</b>	£000
Balance as at 1 April	<b>(421,937)</b>	(791,043)
Plus excess of amounts distributed over contributions for the year	<b>(27,953)</b>	(369,106)
Balance as at 31 March 2008	<b><u>(393,984)</u></b>	<u>(421,937)</u>

*Chris Wormald*  
Additional Accounting Officer  
Department for Communities and Local Government

10 July 2008

## Non-Domestic Rating Account for the year ended 31 March 2008

### Notes

- 1 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 The Secretary of State received contributions in aid of non-domestic rating (section 59) totalling £19,975,788.15 from the Ministry of Defence in respect of exempt hereditaments occupied by visiting forces in 2006-2007 and 2007-2008.
- 3 The outturn adjustments made for 2006-2007 and earlier years comprised payments of £452,827,335 and receipts of £71,441,579.
- 4 Any surplus or deficit on the account is carried forward to the following year.
- 5 The account is audited by the Comptroller and the Auditor General.



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