



Levy Account 2018-19

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Presented to Parliament pursuant to Schedule 7B, paragraph 19 of the Local Government Finance Act 1988

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Foreword

1. Under the BRR system introduced on 1st April 2013, local authorities retain at least 50% of the collected business rates. This reduces the payment of business rates to the Consolidated Fund accordingly. The operation of 100% business rate pilots from 2017-18 and its extended operation in 2018-19 does not impact on the Levy Account.
2. The cash flows in respect of Business Rates Retention are reported via two White Paper Accounts: the Main Non-Domestic Rating Account and the Levy Account. Other amounts credited or debited to this Account are included in accordance with the Accounts Direction and legislation.
3. In line with the Accounts Direction, the Levy Account records the cash transactions to and from local authorities and any credit to the account as provided for under paragraph 20(2) of Schedule 7B to the Local Government Finance Act 1988 (See note 1.1). With the exception of the credit to the account (See note 2.1), all of these transactions appear elsewhere in the Trust Statement prepared for business rates or the Ministry of Housing, Communities and Local Government's (MHCLG) Resource Accounts; this account serves to bring them together in accordance with the provisions of legislation and regulations that apply to the Levy Account.
4. The annual business rates retention cycle operates on the basis of local authorities providing estimates of the expected yield of business rates for the year ahead which are then reconciled with actual outturn at year end. On the basis of these estimates and outturn and amounts determined as part of the local government finance settlement, MHCLG pays and receives amounts to and from local authorities throughout the year. Safety Net and Levy payments are calculated according to a formula set out in the Non-domestic Rates (Levy and Safety Net) Regulations (SI 2013/737) (as amended) from figures submitted by local authorities.
5. Safety Net payments are available to those authorities whose business rates income falls or is set to fall below a set level. They are funded through Levy payments from authorities whose business rates income has grown above a set level. The purpose of this account is to show the operation of these arrangements and any credit to the account made through the Local Government Finance Settlement (note 2.1).
6. For the first time, a surplus of Levy income is being returned to local authorities in 2018-19 (note 2.3). This reflects that overall the business rates retention system has provided growth income for local authorities as well as levy income for the Exchequer. Over time, this levy has produced a significant surplus on the account and the Secretary of State has decided to return the majority of this surplus to local authorities.

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The Levy Account and Business Rates Retention

How the Levy Works:

7. In accordance with regulations made under schedule 7B of the Local Government Finance Act 1988, some authorities are required to pay a levy to the Secretary of State in respect of their growth in business rates income. These payments, together with any sum credited to the Levy account in accordance with paragraph 20(2) of Schedule 7B, are used to fund safety net payments to authorities whose income from business rates in any year is below a baseline level. Safety net payments are made, on account, during the course of a year, on the basis of prior-year estimates of business rates income. They are reconciled in the following year, once outturn data becomes available. Any sums not used for the purpose of funding safety net payments are distributed to local authorities in accordance with regulations made under paragraph 30 of Schedule 7B.
8. Levy payments that are due to Government are paid via the Secretary of State to the Consolidated Fund and reported in the Trust Statement prepared for business rates. Safety Net payments due to local authorities are paid by the Secretary of State from amounts voted by Parliament and are reported in the MHCLG's Resource Accounts.

Statutory background

9. The Account is prepared under paragraph 19(1) of Schedule 7B to the Local Government Finance Act 1988 and in accordance with the provisions of Schedule 7B and regulations that apply to the Levy Account. The Account shows:
 - (i) Sums received by the Secretary of State
 - levy amounts received from authorities;
 - safety net amounts received from authorities in respect of outturn adjustments; and
 - credits as per Schedule 7B para 20(2) of Local Government Finance Act 1988
 - (ii) Payments made by the Secretary of State
 - sums paid to authorities in respect of safety net outturn adjustments;
 - sums paid to authorities in respect of safety net on account; and
 - sums paid to authorities in respect of distribution of the remaining balances
 - (iii) Opening and closing balances.

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Review of 2018-19

10. In 2018-19 the Secretary of State paid £17 million to authorities by way of safety net payments (£14 million in 2017-18). The credit to the Levy Account under paragraphs 4 and 6(i) for 2018-19 is £35 million, (£25 million in 2017-18).
11. The excess of credits over debits in 2018-19 is £3 million (an excess of £125 million in 2017-18). The cumulative credit balance to take forward into 2019-20 is £15 million (£13 million in 2017-18).

Melanie Dawes
Accounting Officer
Ministry of Housing, Communities and Local Government
8 July 2019

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Statement of Accounting Officer's Responsibilities

Under paragraph 19(1) of Schedule 7B to the Local Government Finance Act 1988 the Secretary of State is required to prepare an Account, prepared on cash basis (to be called a Levy Account) for each financial year in the form directed by the Treasury. An Accounting Officer is appointed for the Account. The Account must properly present the credits and debits for the financial year and the balance held at year end.

In preparing the Account, the Accounting Officer is required to comply with the requirements of the Local Government Finance Act 1988 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 and for keeping proper records, are set out in Managing Public Money published by HM Treasury.

So far as the Accounting Officer is aware, there is no relevant audit information of which the external auditors are unaware. The Accounting Officer has taken all steps that she ought to have taken to make herself aware of any relevant audit information and to establish that the Department's auditors are aware of that information.

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**THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR
GENERAL TO THE HOUSES OF PARLIAMENT**

Opinion on financial statements

I certify that I have audited the financial statements of the Levy Account for the year ended 31 March 2019 under the Local Government Finance Act 1988. The financial statements comprise: the Statement of Amounts Debited and Credited to the Account, the Statement of Balances and the related notes. These financial statements have been prepared under the accounting policies set out within them.

In my opinion:

- the financial statements properly present the amounts debited and credited to the Levy Account for the year ended 31 March 2019; 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 regularity

In my opinion, in all material respects the amounts debited and credited 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.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Ministry of Housing, Communities and Local Government (MHCLG) in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions related to going concern

I am required to conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the appropriateness of using the going concern basis for the Levy Account. If I

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conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may mean that the going concern basis ceases to be appropriate. I have nothing to report in these respects.

Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they properly present the debits and credits for the financial year and the balance held at year-end.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to examine, certify and report on the financial statements in accordance with the Local Government Finance Act 1988.

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MHCLG's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements

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represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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.

Other information

The Accounting Officer is responsible for the information included in the foreword. My opinion on the financial statements does not cover the foreword and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the foreword and, in doing so, consider whether the foreword is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this foreword, I am required to report that fact. I have nothing to report in this regard.

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 to be audited 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.

Gareth Davies **9 July 2019**
Comptroller and Auditor General

National Audit Office
157-197 Buckingham Palace Road
Victoria
London

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Statement of amounts debited and credited to the Levy account for the year ended 31st March 2019

| Credits | Note | 2018-19 £'000 | 2017-18 £'000 |
|---|-------------|-------------------------|-------------------------|
| Balance at 1 April | | 12,697 | |
| Levy amounts received from authorities | | 159,928 | 96,083 |
| Safety net amounts received from authorities in respect of outturn adjustments | | 5,196 | 18,234 |
| Credits as per Schedule 7B, para 20(2) of Local Government Finance Act (LGFA) 1988: | 2.1 | 35,000 | 25,000 |
| Total credits | | 212,821 | 139,317 |

| Debits | Note | 2018-19 £'000 | 2017-18 £'000 |
|---|-------------|-------------------------|-------------------------|
| Balance at 1 April | | | 112,146 |
| Sums paid to authorities in respect of safety net outturn adjustments | | 13,409 | 5,220 |
| Sums paid to authorities in respect of safety net on Account | | 3,930 | 9,254 |
| Sums paid to authorities in respect of distribution of the remaining balances | 2.3 | 180,000 | - |
| End of year debit item as per Schedule 7B para 21(2) of LGFA 1988: | 2.4 | 15,482 | 12,697 |
| Total debits | | 212,821 | 139,317 |

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Statement of Balances as at 31 March 2019

| | Note | 2018-19 £'000 | 2017-18 £'000 |
|--|------|------------------|------------------|
| Balance as at 1 April | | (12,697) | 112,146 |
| Excess of (credits) / debits over amounts collected for the period | | (2,785) | (124,843) |
| Balance as at 31 March 2019 | 2.4 | (15,482) | (12,697) |

Melanie Dawes
Accounting Officer
Ministry of Housing, Communities and Local Government

8 July 2019

Levy account for the year ended 31 March 2019

Notes to the Account

1. Accounting Policies

- 1.1. The Account has been prepared in accordance with Schedule 7B to the Local Government Finance Act 1988 as inserted by the Local Government Finance Act 2012 and the HM Treasury Accounts Direction. It records the amounts received in respect of levies on retained Business Rates, payments to local authorities, reconciliation payments and receipts and any credit to the account as provided under paragraph 20(2) of Schedule 7B to the Local Government Finance Act 1988. Other amounts credited or debited to the account are included in accordance with the Accounts Direction and legislation.

2. Notes to the Account

- 2.1. There was £35 million top-slice credit from Revenue Support Grant in 2018-19 (£25 million in 2017-18) to finance safety net payments made in advance of any levy income being received from local authorities.
- 2.2. The account is audited by the Comptroller and Auditor General. The National Audit Office charges a notional fee of £7,000 (in 2017-18 £7,000) to the Department for the external audit work performed on the Levy Account and this is reported in the Department's Resource Accounts.
- 2.3. In accordance with Schedule 7B para 30(1) to the LGFA 1988, the Secretary of State made a Ministerial direction to distribute £180 million of the remaining surplus balance on the Levy Account to local authorities. The distribution was made on the basis of the 2013-14 settlement funding assessment – the sum of each authority's Revenue Support Grant and Baseline Funding Level allocations. This reflects the fact that in previous years Revenue Support Grant was top-sliced from the settlement to help fund safety net payments. Had this funding not been required, it would have been used to meet authorities' service needs.
- 2.4. There is a remaining credit balance of £15 million (£13 million in 2017-18) which will be taken forward into 2019-20. In accordance with Schedule 7B para 30(1) to the LGFA 1988, the Secretary of State will then consider whether an amount equal to the whole or part of the remaining balance is to be distributed among one or more relevant authorities.

