

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

Pooling of Non-Domestic Rates and Redistribution to Local Authorities in England Accounts 2005-2006

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Contents

	Page
Foreword	2
Statement of Accounting Officer's responsibilities	5
The Certificate and Report of the Comptroller and Auditor General	6
Non-Domestic Rating Account	8
Statement of Balances	9
Notes to the Financial Statements	10
Statement on Internal Control	11

Foreword

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 78A¹ 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 2005-06, demonstrates that, taking one year with another, pooling is achieved and all rates received are redistributed to receiving authorities.² All these transactions appear elsewhere in the Consolidated Fund account or Resource Account for the Office of the Deputy Prime Minister, 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 aid 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 proportion to their total resident populations. Where more than one receiving authority provides services in an area (for example, non-metropolitan district councils, county councils and police authorities) the amount distributed according to population is divided between the authorities.

Non-domestic rates paid to the First Secretary of State ('The Secretary of State') are credited to the Consolidated Fund. Amounts paid 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.³ 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.

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 (SI 1992/2996) made under s 141.

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 Office of the Deputy Prime Minister 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.

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 2005-2006 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 2005-2006
 - 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 2005-2006;
 - d in respect of the additional rates collected by billing authorities in respect of 2004-2005 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;

- e under paragraph 2 (1) (d) of Schedule 8⁴ 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 2005-2006
 - 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 2004-2005 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 proportion to resident population. In areas where more than one receiving authority provides services, payments are divided on the basis of national shares of Formula Spending Shares for the services which each provides. They also include an amount added by the Secretary of State by reference to his calculation of the loss of non-domestic rates revenue due to transitional arrangements.

Review of 2005-2006

In 2005-2006 the Secretary of State received £17,458.471 million of non-domestic rates and paid to authorities £18,408.729 million.

At the end of 2005-2006, amounts of non-domestic rates due for 2004-2005 and earlier years had not been determined in respect of seven authorities. Four of these were resolved before the end of May 2006. 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 2006-2007.

After taking account of the accumulated surplus of £159.215 million carried forward from the previous financial year, the overall balance on the account at the end of 2005-2006 is a cumulative deficit of £791.043 million. An adjustment has been made to the distributable amount for 2006-2007 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.

Following the creation of the new Department for Communities and Local Government (DCLG) on 5 May 2006 responsibility for administration of the NNDR pool passed from the Office of the Deputy Prime Minister to the new department. However, the Resource Account concerned with this expenditure is that for the Office of the Deputy Prime Minister, and so for clarity of accounting and on the advice of the NAO, it has been signed off as such.

Neil Kinghan
Additional Accounting Officer
Office of the Deputy Prime Minister

11 July 2006

4 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.

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 'Government Accounting'. Under the terms of the Accounting Officers' Memorandum, the relationship between the Office's principal and additional Accounting Officers, together with their respective responsibilities, is set out in writing.

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

I certify that I have audited the financial statements on pages 8 and 9 under the Local Government Finance Act 1988.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 5, the Accounting Officer is responsible for the preparation of financial statements in accordance with the Local Government Finance Act 1988 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the Management Commentary. 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 Treasury directions made thereunder. 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. I also report to you if, in my opinion, the Management Commentary is not consistent with the financial statements, if proper accounting records have not been kept or if I have not received all the information and explanations I require for my audit.

I review whether the statement on pages 11 to 13 reflects compliance with HM Treasury's guidance on the Statement on Internal Control, 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 opinion

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

In my opinion

- the financial statements properly present, in accordance with the Local Government Finance Act 1988 and directions made thereunder by HM Treasury, the receipts and payments for the year ended 31 March 2006 and the balances held at that date;
- the financial statements have been properly prepared in accordance with the Local Government Finance Act 1988 and directions made thereunder by HM Treasury; and
- 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.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

14 July 2005

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Non-Domestic Rating Account 2005-2006

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

	Current year £000	Previous year £000
Receipts		
Balance as at 1 April 2005	159,215	(641,829)
Contributions from authorities	16,191,087	14,991,667
Contributions from ratepayers on the central non-domestic rating list	1,099,418	1,030,163
Contributions in aid in respect of visiting forces exempt properties	10,386	9,991
Gross additional receipts as a result of the final recalculations for 2004-2005 and previous years	157,580	153,084
Amount added to the distributable amount of non-domestic rates in accordance with paragraph 9 (3A), as inserted by section 4(1)(b) of the Non-Domestic Rating Act 1992, and amended by section 3 of the Non-Domestic Rating Act 1994	0	77,000
Balance as at 31 March 2006	791,043	(159,215)
	18,408,729	15,460,861
Payments		
Sums paid to receiving authorities as the distributable amount for 2005-2006	18,000,000	15,000,000
Sums paid to billing authorities as a result of the final recalculations for 2004-2005 and previous years	408,729	460,861
	18,408,729	15,460,861

Notes

- 1 Excess of payments over receipts is £950,258,159 in 2005-2006.
- 2 Excess of receipts over payments is £801,043,870 in 2004-2005.

Statement of Balances as at 31 March 2006

	2005-2006 £000	2004-2005 £000
Balance as at 1 April	159,215	(641,829)
Less (excess)/shortfall of amounts distributed over contributions for the year	(950,258)	801,044
Balance as at 31 March 2005	<u>(791,043)</u>	<u>159,215</u>

Neil Kinghan
 Additional Accounting Officer
 Office of the Deputy Prime Minister

11 July 2006

Non-Domestic Rating Account for the year ended 31 March 2005

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 £10,386,056.99 from the Ministry of Defence in respect of exempt hereditaments occupied by visiting forces.
- 3 The outturn adjustments made for 2004-2005 and earlier years comprised payments of £408,728,564 and receipts of £157,579,491.32.
- 4 Any surplus or deficit on the account is carried forward to the following year.
- 5 The account is audited by the Comptroller and Auditor General.

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 Office of the Deputy Prime Minister (ODPM) and is now operated by the Department for Communities and Local Government (DCLG).

Scope of responsibility

The Principal Accounting Officer for DCLG has responsibility for maintaining a sound system of internal control that supports the achievement of DCLG's policies, aims and objectives as set by the Department's Ministers. He has a duty to safeguard the public funds and departmental assets for which he is personally responsible, in accordance with the responsibilities assigned to him in Government Accounting.

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.

Ministers set the vision and political direction of the Office's policies within which many calculated risks are taken. The Principal Accounting Officer for DCLG and senior managers ensure that Ministers are able to take informed decisions on the basis of policy options that have clear statements on implications attached to the various courses of action.

Within the Local and Regional Government 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.

To help the Principal Accounting Officer for the DCLG discharge his responsibilities, I have specific delegated authority for the management and accountability of programme and administration resources. Identification, evaluation, and management of risks to the achievement of strategic objectives and key targets are essential elements of this responsibility. As part of the Department's assurance process, senior managers provide me with an interim statement on the effectiveness of their internal controls on a quarterly or half yearly basis.

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 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 the Department's 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 ODPM for the year ended 31 March 2006 and following the creation of the new department, in DCLG from 5 May 2006, up to the date of approval of the annual report and accounts, and this statement complies with the Treasury guidance.

Capacity to handle risk – risk and control framework

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

During 2005-2006, risk processes and assurance continued to be applied through

- To December 2005, the ODPM Board's review of corporate risks, particularly in the context of PSA targets, business critical projects, and corporate operational activities, through the monthly Performance Monitoring Report;
- From January 2006, Programme Executives developed the capability to review strategic and cross-cutting risks and those escalated from within their areas of influence. These risks are reported monthly to Ministers and the Board Executive;
- An Audit and Risk Committee, under independent chairmanship, that reviews on an on-going basis the approach to risk management and corporate governance across the Department and approves the assessments of progress on embedding risk management reported to the Civil Service/Permanent Secretaries Management Board sub-committee on Risk annually in July. The balance of non-executive and executive members was changed in April 2006 when the Principal Accounting Officer appointed a third non-executive director and made a further reduction in the overall number of senior executives on the Committee. The Committee complies with all of the requirements of the Audit Committee Handbook with the exception of the recommendations on the size of the Committee and the balance of Non-Executive and Executive members. The Principal Accounting Officer will consider the effectiveness of the Committee during the course of 2006-2007; and
- Senior managers within the Department's Headquarters (including myself as the Director General with responsibility for the RCU/GO Network) and the Chief Executive of the Agency, reporting how they were managing risk through their interim Statements on Internal Control which were provided on a half-yearly basis. From April 2006, this will be complemented by provision of directorate risk registers quarterly.

Throughout the year, processes were in place to identify, assess and manage risk through various planning and progress monitoring processes, project and programme management driven by the Centre of Excellence, policy development and implementation, audit and in the context of preparations for CSR07.

During 2005-2006, work continued on addressing elements of the Treasury's risk framework – leadership, strategy and policies, people, partnerships, processes, outcomes and handling. Following changes in the governance and structure of the Department, more emphasis will be placed on ensuring the timely application of risk management to the development and implementation of policy and delivery.

Review of effectiveness

As an Additional Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control for Local Government within DCLG. My review of the effectiveness of the system of internal control, including contingency planning arrangements, is informed by the work of the internal auditors and the executive managers within the Department who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter 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.

Mechanisms exist to ensure the effectiveness of the system of internal control is regularly reviewed

- A Management Board, that includes two Non-Executive Directors, meets monthly to consider the plans and strategic direction of the Department, including strategic challenges and opportunities; and
- From January 2006, a Board Executive within the Management Board to co-ordinate the operations of the Department, oversee organisational development and to offer advice to Ministers and the main Board on overall strategy.

- An Audit and Risk Committee considers the adequacy of the internal control system and the risk management framework. It is chaired by a Non-Executive Director who also sits on the Management Board. In 2005-06 the Committee reviewed the approach to risk management, agreed the Internal Audit work programme, and the Department's own system for obtaining assurances from senior managers. The Principal Accounting Officer also attends each meeting of the Committee;
- The effectiveness of the Department's risk management, control and governance processes are kept under regular review by the Department's Internal Audit Services. Regular reports are made to the Audit and Risk Committee. DCLG Internal Audit operates to the standards defined in the Government Internal Audit Manual; and

My senior managers provide me with a statement every six months on the effectiveness of their internal control and risk management arrangements.

There are no significant internal control problems to report.

The Pool was operated by the Office of the Deputy Prime Minister throughout the year 2005-06. On 5 May 2006 responsibility passed to the new Department for Communities and Local Government from the Office of the Deputy Prime Minister, and so for clarity of accounting and on the advice of the NAO, it has been signed off as such.

Neil Kinghan
Additional Accounting Officer
Office of the Deputy Prime Minister

11 July 2006

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