

Pooling of Non-Domestic Rates and Redistribution to Local Authorities in England Account 2004-2005

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Foreword

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 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 on the basis of national shares of Formula Spending Shares for the services which each provides.

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.

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 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.

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 1 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 s141.

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.

The distributable amount for 2004-2005 included an amount of £77 million added by the Secretary of State. He did so in exercise of his power under paragraph 9(3A) of Schedule 8 - inserted by the Non-Domestic Rating Act 1992, and as amended by section 3(3) of the Non-Domestic Rating Act 1994 - to compensate the non-domestic rates pool for losses in revenue arising from regulations made under section 58. These regulations are The Non-Domestic Rating (Chargeable Amounts) (England) Regulations 1999 (SI 1999 No 3379)⁴ which phased in the effects on rate bills of significant increases and decreases in rateable values resulting from the 2000 revaluation. In line with the policy enacted in the Local Government Act 2003, 2004-2005 is the last year in which this addition will be made in respect of transitional payments. In future the delayed effect of increases in rateable value will be balanced over a five year period by a similar delayed effect of reductions in other valuations.

Statutory background

The account for 2004-2005 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 2004-2005
 - 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 2004-2005;
 - d in respect of the additional rates collected by billing authorities in respect of 2003-2004 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 8⁵ the amount contributed by the Secretary of State to make good the loss of non-domestic rate revenue resulting from transitional arrangements.

⁴ As amended by the Non-Domestic rating (Chargeable Amounts) (Amendment) (England) Regulations 2000 (S.I. 2000 No 936).

⁵ 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.

- ii payments made by the Secretary of State in 2004-2005
 - 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 2003-2004 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 2004-2005

In 2004-2005 the Secretary of State received £16,184.9 million of non-domestic rates and paid to authorities £15,460.861 million. If the additional credit of £77. million is taken into account, the account for the year showed an excess of receipts compared to payments of £801.044 million.

At the end of 2004-2005, amounts of non-domestic rates due for 2003-2004 and earlier years had not been determined in respect of fourteen authorities, chiefly as a result of unresolved audit qualifications. Nine of these were resolved before the end of June 2005. 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.

After taking account of the accumulated deficit of £641.829 million carried forward from the previous financial year, the overall balance on the account at the end of 2004-2005 is a cumulative surplus of £159.215 million. An adjustment has been made to the distributable amount for 2004-2005 in order to take account of the forecast surplus.

Properties occupied for the purposes of a visiting armed 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.

The Resource Account concerned with this expenditure is that for the Office of the Deputy Prime Minister.

Neil Kinghan
Accounting Officer
Office of the Deputy Prime Minister

14 July 2005

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.

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).

Scope of responsibility

As Accounting Officer for ODPM, Mavis McDonald has responsibility for maintaining a sound system of internal control that supports the achievement of ODPM's policies, aims and objectives as set by the Office's Ministers. She has a duty to safeguard the public funds and departmental assets for which she is personally responsible, in accordance with the responsibilities assigned to her 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 Accounting Officer for ODPM and her 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 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 ODPM discharge her 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 Office'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 Office'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 2005 and 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 is identified, assessed, managed and reviewed within the Office to ensure the efficient, effective, and economical delivery of the objectives, targets and business.

During 2004-2005 risk processes and assurance continued to be applied through

- 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 (covering key targets, trajectories, deliverables, milestones, risks and spend against monthly budget profiles);
- 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 Office and approves the assessments of progress on embedding risk management reported to the Prime Minister in June and December 2004. During the course of the year a restructuring of the Committee was agreed which led to the appointment of a second Non-Executive Director and a reduction in the number of senior executives on the Committee. The Committee now 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. I will consider the effectiveness of the Committee during the course of 2005-2006; and
- senior managers within the Office Headquarters, Chief Executives of Agencies, and the Additional Accounting Officer for the Government Offices reporting how they were managing risk through their interim Statements on Internal Control which were provided on a half-yearly basis.

Throughout the year, processes were in place to identify, assess and manage risk through business and delivery planning (including for the Spending Review 2004), through project and programme management, through policy development and implementation and through audit.

Further work to embed risk management within planning, project and programme management and delivery is being driven by the Office's Centre of Excellence. During 2004-2005 work continued on addressing elements of the Treasury's risk framework - leadership, strategy and policies, people, partnerships, processes, outcomes and handling - including the identification, assessment and management of risk early in the policy development process and the spread of risk across the Office.

The risk and control framework

Our aim is to create an environment of 'no surprises' in which we manage our threats and opportunities effectively. Risks identified through the Business Planning process and other project and programme management systems, performance monitoring and through implementation of internal and external auditor's recommendations form the basis of the Office's risk register that feeds into the corporate management information system. This corporate and strategic risk register is regularly reviewed and updated by the risk owners.

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 ODPM. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Office 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 Office, including strategic challenges and opportunities;
- 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 2004-2005 the Committee reviewed the approach to risk management, agreed the Internal Audit work programme, and the Office's own system for obtaining assurances from senior managers. The Principal Accounting Officer also attends each meeting of the Committee;
- the effectiveness of the Office's risk management, control and governance processes are kept under regular review by the Office's Internal Audit Services. Regular reports are made to the Audit and Risk Committee. ODPM 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, and at year end provide a report on the stewardship of the resources delegated to them.

During the year a financial irregularity occurred elsewhere in the ODPM. As a result, a range of actions are being taken to tighten compliance requirements and procedures throughout the Office, including a reminder to senior managers to undertake regular checks on a sample of financial transactions charged to their budgets.

Neil Kinghan
Accounting Officer
Office of the Deputy Prime Minister

14 July 2005

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

Pooling of Non-Domestic Rates and Redistribution to Local Authorities in England Accounts 2004-2005

I certify that I have audited the financial statements on pages 11 to 13 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 direction made thereunder and for the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the Foreword. In discharging my responsibilities as independent auditor, established by statute, I have regard to the standards and guidance issued by the Auditing Practices Board and ethical guidance applicable to the auditing profession.

I report 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 direction made thereunder, and whether 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 also report if, in my opinion, the Foreword 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 read the other information contained in the Foreword and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 6 to 8 reflects compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by the Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the corporate governance procedures or its risk and control procedures.

Basis of audit opinion

I conducted my audit in accordance with the United Kingdom Auditing Standards issued by the Auditing Practices Board. An 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 judgements 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 error, or by fraud or other irregularity and that, 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. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion

- the financial statements properly present the receipts and payments for the year ended 31 March 2005 and balances held at that date and properly prepared in accordance with the Local Government Finance Act 1988 and direction made thereunder by 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

15 July 2005

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Non-Domestic Rating Account 2004-2005

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 2004	(641,829)	(772,044)
Contributions from authorities	14,991,667	14,691,889
Contributions from ratepayers on the central non-domestic rating list	1,030,163	1,028,772
Contributions in aid in respect of visiting forces exempt properties	9,991	10,068
Gross additional receipts as a result of the final recalculations for 2003-2004 and previous years	153,084	192,857
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	77,000	111,000
Balance as at 31 March 2005	(159,215)	641,829
	15,460,861	15,904,371
Payments		
Sums paid to receiving authorities as the distributable amount for 2004-2005	15,000,000	15,600,000
Sums paid to billing authorities as a result of the final recalculations for 2003-2004 and previous years	460,861	304,371
	15,460,861	15,904,371

Notes

- 1 Excess of receipts over payments is £801,043,870 in 2004-2005
- 2 Excess of payments over receipts is £130,213,616 for 2003-2004

Statement of Balances as at 31 March 2005

	2004-2005 £000	2003-2004 £000
Balance as at 1 April	(641,829)	(772,044)
Less excess of contributions over amounts distributed for the year	801,044	130,215
Balance as at 31 March 2005	159,215	(641,829)

Neil Kinghan
Accounting Officer
Office of the Deputy Prime Minister

14 July 2005

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 £9.991 million from the Ministry of Defence in respect of exempt hereditaments occupied by visiting armed forces.
- 3 The outturn adjustments made for 2003-2004 and earlier years comprised payments of £460.861 million and receipts of £153.084 million.
- 4 The distributable amount for 2004-2005 included a contribution of £77 million added by the Secretary of State to make good the loss of non-domestic rate revenue resulting from transitional arrangements.
- 5 Any surplus or deficit on the account is carried forward to the following year.
- 6 The account is audited by the Comptroller and Auditor General

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