



Main Non-Domestic Rating Account 2018-19

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Presented to Parliament pursuant to Schedule 7B, paragraph 1 of the Local
Government Finance Act 1988

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Foreword

1. Under the Business Rates Retention (BRR) system introduced on 1st April 2013, local authorities initially retain at least 50% of the collected business rates. This reduces the payment of business rates to the Consolidated Fund accordingly. From 2017-18 we began piloting 100% business rates retention. The number of 100% pilots increased in 2018-19 and this will further reduce payments to the Consolidated Fund whilst increasing the Local Share of business rates (see note 2.3). It will also impact the year end debit on the account (see note 2.4).
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. In line with the Accounts Direction, the Main Rating Account records the cash transactions to and from local authorities and any debit to the account as provided for under paragraph 2(3) of Schedule 7B to the Local Government Finance Act 1988 (see note 1.1).
3. The annual 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, Ministry of Housing Communities Local Government (MHCLG) pays and receives amounts to and from local authorities throughout the year.
4. In terms of the payments to Government these include:
 - The Central Share representing the exchequer's share of the collected business rates;
 - Surplus on collection fund payments is an expected or actual outturn position where local authorities have previously under estimated the amount of business rates for a relevant year;
 - Transitional protection receipts arise from the additional amounts paid in respect of hereditaments (properties) that have a higher initial bill under the transitional arrangements than would otherwise be the case;
 - Most non-domestic hereditaments in England appear on the local rating list for the local authority area in which they are situated and rates are paid to that local authority. However, some hereditaments that go beyond one local authority area, such as pipelines appear on the Central Rating list. These rates are paid directly to the Secretary of State for Housing, Communities and Local Government. These hereditaments include gas, electricity, railways and communication networks;
 - Rates paid by the Minister of Defence in respect of properties occupied by Visiting Forces, these typically include RAF bases.
5. In terms of the payments to local authorities these include:
 - Transitional protection payments make up the difference in expected business rates income for local authorities who have hereditaments that have a lower

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initial bill under the transitional arrangements than would otherwise be the case;

- Deficit on collection fund payments is an expected or actual outturn position where local authorities have previously over estimated the amount of business rates for a relevant year.
6. In addition to the amounts set out above in paragraphs 4 and 5, this account records the Top Up and Tariff payments to and from local authorities as set out in paragraph 14 of Schedule 7B to the Local Government Finance Act 1988. The amounts payable are determined against a business rates baseline and a baseline funding level. If an individual local authority's business rate baseline is greater than the baseline funding level, the difference will be paid to central government as a tariff. If the individual authority business rate baseline is less than the baseline funding level, the difference will be paid to the authority by central government as a top up payment.
 7. The debit to the account referred to in paragraph 2 above is a non cash item. A formula sets out the maximum amount of the debit to the account in any given year. The Government will have paid at least an equivalent amount in grant to local authorities during the financial year.
 8. With the exception of the debits to the account (see note 2.1), all these transactions appear elsewhere in the Trust Statement prepared for business rates or the MHCLG's Resource Accounts. This account serves to bring them together in accordance with the provisions of legislation and regulations that apply to the Main Non-Domestic Rating Account.

Business Rates Retention and non-domestic rates

9. Non-domestic rates 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. Amounts due to local authorities are paid by the Secretary of State from amounts voted by Parliament and are reported in the MHCLG's Group Accounts. There is no separate fund through which these amounts pass. In order to avoid unnecessary cash transfers between the Secretary of State and authorities, only net payments are made¹.
10. Local authorities pay to Government a 50% share of the amount payable by ratepayers in the authority's area less certain allowable adjustments. This does not apply to those authorities who piloted 100% retention of business rates in 2018-19. These pilot authorities are allowed to retain more business rates in exchange for reduced central government grant funding. A calculation of non-domestic rating income is made by the authorities before the start of the year and the gross amounts paid to the Secretary of State on the basis of these calculations are shown in the Account as "Amounts received from authorities". The amounts shown as received also include Tariffs as determined in the relevant year's Local Government Finance Report, and outturn reconciliation receipts from the previous

¹ See the Local Government Finance (Payments) (English Authorities) Regulations 1992 (S.I. 1992/2996) made under s 141.

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year. The Ministry for Housing, Communities and Local Government calculates amounts due to the Secretary of State from ratepayers on the central rating list. Contributions-in-aid in respect of visiting forces' exempt properties are calculated by GVA Grimley Limited on behalf of the Valuation Office Agency and paid to the Secretary of State by the Ministry of Defence.

Statutory Background

11. The Account is prepared under paragraph 1 (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 Main Non-Domestic Rating Account. The Account shows:
 - (i) Sums received by the Secretary of State
 - from ratepayers on the Central non-domestic rating list;
 - contributions-in-aid of Visiting Forces exempt properties ;
 - surplus on collection fund;
 - central share;
 - tariffs;
 - transitional protection; and
 - disregarded amounts.
 - (ii) Payments made by the Secretary of State
 - deficit on collection fund;
 - top ups;
 - transitional protection; and
 - disregarded amounts.
 - (iii) A debit to the account in accordance with Schedule 7B paragraph 2(3) of the Local Government Finance Act 1988.
 - (iv) Opening and closing balances.

Review of 2018-19

12. In 2018-19 the Secretary of State received £12,628 million of non-domestic rates (£14,748 million in 2017-18) and paid £2,509 million to local authorities (£4,151 million in 2017-18). The Main Non Domestic Rating Account was debited £6,306 million as explained under paragraph 11(iii) above (£10,470 million in 2017-18). The cumulative balance to take forward is £4,342 million (£528 million in 2017-18). The increase in the variance against 2017-18 is due to a larger number of 100% business rate pilot schemes in 2018-19. This is explained in detail in Note 2.4.
13. When comparing outturn with the previous year, there are also significant variances for the Central Share (£4,527 million in 2018-19, £9,111 million in

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2017-18), Tariffs (£5,460 million in 2018-19, £3,126 million in 2017-18) and Top Ups (£1,803 million in 2018-19, £2,989 million in 2017-18). In each case the difference is again due to the larger number of 100% business rate pilot schemes in 2018-19. The overall impact is to reduce government's Central Share and increase the local authority Local Share of business rates.

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 1(1) of Schedule 7B to the Local Government Finance Act 1988 the Secretary of State is required to prepare an Account, prepared on a cash basis (to be called a Main 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 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 Main Non-Domestic Rating 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 Main Non-Domestic Rating 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 relating 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

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on the appropriateness of using the going concern basis for the Main Non-Domestic Rating Account. If I 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

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statements, including the disclosures, and whether the consolidated financial statements 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 **10 July 2019**
Comptroller and Auditor General

National Audit Office
157-197 Buckingham Palace Road
Victoria, London
SW1W 9SP

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**Statement of amounts debited and credited to the Main Non-Domestic
Rating Account for the year ended 31 March 2019**

Credits	Note	2018-19 £'000	2017-18 £'000
Balance at 1 April		528,421	401,630
Amounts received from rate payers on the Central non domestic rating list		1,685,010	1,596,913
Amounts received in respect of contributions in aid of Visiting Forces exempt properties		16,047	16,346
Amounts received in respect of Surplus on collection fund (Secretary of State share)		201,964	151,279
Amounts received in respect of Final Surplus on collection fund from 17-18 and 16-17 (Secretary of State share)		231,449	131,133
Amounts received from authorities in respect of the Central Share		4,527,018	9,111,474
Amounts received from authorities in respect of Tariffs		5,460,000	3,126,263
Amounts received from authorities in respect of Transitional Protection		334,801	499,430
Amounts received from authorities in respect of Transitional Protection outturn adjustments		169,069	113,720
Amounts received in respect of reconciliation of disregarded amounts (Enterprise Zones etc)		2,558	1,775
Total credits		13,156,337	15,149,963
Debits	Note	2018-19 £'000	2017-18 £'000
Sums paid to authorities in respect of Deficit on collection fund		197,509	239,253
Sums paid to authorities in respect of Final Deficit on collection fund for 17-18 and 16-17		158,757	295,187
Sums paid to authorities in respect of Top Ups		1,803,476	2,989,148
Sums paid to authorities in respect of Transitional Protection outturn adjustments		40,817	4,699
Sums paid to authorities in respect of reconciliation of disregarded amounts (Enterprise Zones etc)		2,228	4,119
Sums paid to authorities in respect of Transitional Protection		306,390	618,775
Debit to the account in accordance with Schedule 7B paragraph 2(3) of the Local Government Finance Act 1988	2.1	6,305,552	10,470,361
End of year debit item as per Schedule 7B para 3(2) of the Local Government Finance Act 1988:	2.4	4,341,608	528,421
Total debits		13,156,337	15,149,963

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Statement of Balances as at 31 March 2019

Statement of Balances as at 31 March 2019	Note	2018-19 £'000	2017-18 £'000
Balance as at 1 April		(528,421)	(401,630)
Excess of credits over amounts collected	2.4	(3,813,187)	(126,791)
Balance		(4,341,608)	(528,421)

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

8 July 2019

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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 Business Rates Retention, payments to local authorities, reconciliation payments and receipts and any debit to the account as provided under paragraph 2(3) 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.
- 1.2. Authorities are required to calculate their non-domestic rating income for the accounting period before the start of the relevant year from which the Government's Central Share is derived. The Central Share is paid during the year in such instalments as the Secretary of State directs (under Schedule 7B). Whilst the account shows the full amounts of contributions from authorities in practice, the cash amounts are netted off against payments due from the Department and only net cash payments are received or made by the Department. This avoids unnecessary cash transfers between the Secretary of State and local authorities.
- 1.3. In line with the Non-Domestic Rating (Rates Retention) Regulations 2013 and Accounting Policy (see 1.4), estimated amounts in respect of collection fund surplus and deficits included on local authority returns received in January of any year are not eligible for recognition as credits and debits until the year following the accounting period.
- 1.4. Demonstration of eligibility of amounts reported in local authority (NNDR3) returns arises at the point at which these returns are received, that is, at the earliest, in May and June of any year.
- 1.5. All receipts accounted for and collected in year, with the exception of Tariff receipts, are paid to the Consolidated Fund in the year of collection and all payments accounted for in year are made to the recipients in year.

2. Notes to the Account

- 2.1 The debit to the account is the amount that the Government retains from the Main Non-Domestic Rating Account. In accordance with the governing legislation, this amount is used for the purposes of Local Government in England. In 2018-19, it was used to finance Revenue Support Grant (RSG) and other local authority grants. Overall, there is a credit balance of £4,342 million (£528 million in 2017-18), this includes a debit to the account for 2018-19 of £6,306 million (£10,470 million in 2017-18). Note 2.4 below sets out the reason for the changes to these two items over 2017-18.

- 2.2. The account is audited by the Comptroller and Auditor General. The National Audit Office charges a notional fee of £38,000 (2016-17 cost of £38,000) to the Department for the external audit work performed on the Main Non-Domestic Rating Account and this is reported in the Department's Group Accounts.
- 2.3. The value of the Local Share of business rates retained by local authorities in 2018-19 is £20,119 million (£14,588 million in 2017-18). The local share is a non-cash item for the Department as it is retained by local authorities and is not included in this account. The increase in 2018-19 over 2017-18 is due to a larger number of 100% business rate pilots. The local share for these authorities is equivalent to their 100% retention.
- 2.4. There is a credit balance of £4,342 million (£528 million in 2017-18) in the Statement of Balances. The balance has been calculated in accordance with the requirements of Paragraphs 2 and 3 of Schedule 7B to the Local Government Finance Act 1988. Sub paragraphs 2(3) and (4) limit, by formula, the maximum amount that can be debited to the account in any given year. For 2018-19 the application of this formula limits the debit to £6,306 million which is £4,342 million lower than the debit that would have been required to balance the account for the year. The increase in 2018-19 over 2017-18 is due to the creation of a larger number of 100% business rate pilot schemes. The credit balance does not reduce the funding for local authorities under the business rates retention scheme. It is simply a result of the way in which the legislation requires the balance on the main rating account to be calculated. The legislation was enacted before the implementation of the business rates retention scheme and needs amending to reflect the realities of the way in which the scheme has been implemented. The intention is to amend the calculation through primary legislation as Parliamentary time permits. The credit balance will be carried forward to 2019-20.

