

# Levy Account 2021-22

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

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**Department for Levelling Up, Housing and Communities**  
**Levy Account 2021-22**

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**Foreword**

1. Under the Business Rates Retention (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 pilot schemes to allow some local authorities to retain a higher percentage of the business rates they collect from 2017-18 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 Department for Levelling Up, Housing and Communities (DLUHC's) 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, DLUHC 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).

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## **The Levy Account and Business Rates Retention**

How the Levy Works:

6. 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.
7. 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 DLUHC's Resource Accounts.

## **Statutory Background**

8. 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 the 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 2021-22**

9. In 2021-22 the Secretary of State paid £55 million to authorities by way of safety net payments (£4 million in 2020-21). The credit to the Levy Account under paragraphs 4 and 6(i) for 2021-22 is £50 million, (£1 million in 2020-21).
10. In 2021-22 the Secretary of State received £75 million from authorities in Levy payments compared to £51 million in 2020-21.
11. In accordance with Schedule 7B para 30(1) to the LGFA 1988, the Secretary of State made a Ministerial decision as part of the Local Government Finance Settlement for 2022-23 not to distribute the remaining surplus balance on the Levy Account to local authorities. This decision was taken in the expectation that take up of safety net payments is likely to increase in 2022-23. The surplus on the account will offset the cost of these payments.
12. The excess of credits over debits in 2021-22 is £71 million (an excess of £48 million in 2020-21). The cumulative credit balance to take forward into 2022-23 is £142 million (£71 million in 2020-21).

**Covid-19**

13. The introduction of additional business rate reliefs in 2020-21 in response to the Covid pandemic, which was made after local authorities had submitted their estimate of non-domestic rating income for the year, had a significant impact on the collection of business rates at a local level and that is reflected in a large increase in deficit on collection fund payments reported in the Main Rating Account (£4,243 million in 2021-22, £53 million in 2020-21) with outturn from 2020-21 being lower than the forecast made prior to the pandemic.
14. The transactions that flow into this account are governed by legislation and dictated by the local government finance settlement and the annual national non domestic rating (NNDR1) process which took place prior to March 2020. By law sums had to be paid and collected as if the pandemic had not disrupted the business rates yield. Any other arrangement would have required a change to primary legislation.
15. To help local authorities manage the financial impact, the on account additional business rate relief grant payments to them were deliberately inflated to help with shortfalls resulting from the announcement of additional reliefs in year. A total of £10.7 billion was paid to local authorities. This led to significant adjustments at year end with the return of £5.6 billion from local authorities and additional payments of over £1.5 billion, mainly major precepting authorities. These transactions pass through the department's resource accounts, not through these accounts. At 31st March 2022, £5.3 billion of the £5.6 billion total had been returned to the Exchequer.

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16. Going forward we expect the loss of business rates income collected in 2021-22 to be reflected in another large deficit on local authority collection funds. This is due to the extension of the additional business rates reliefs in response to the Covid pandemic for 2021-22 again being announced following the submission of local authority NNDR1 forms. In total, local authorities received over £5.8 billion in additional business rate relief grant payments in 2021-22. As part of the NNDR1 process for 2022-23, local authorities have estimated the latest deficit on collection to be in the region of £1.8 billion. Government will make “on account” payments to local authorities for this amount during the course of 2022-23 which will be presented in the 2022-23 Main Rating accounts and adjusted once the outturn position is established.
  
17. For the Levy account we might expect an increase in Safety Net payments and a reduction in Levy receipts. This will not be known until the outturn position is confirmed.

Jeremy Pocklington  
Accounting Officer  
Department for Levelling UP, Housing and Communities  
15 July 2022

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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 he ought to have taken to make himself aware of any relevant audit information and to establish that the Department's auditors are aware of that information.

Furthermore, the foreword and accounts as a whole is fair, balanced and understandable and the Accounting Officer takes personal responsibility for the foreword and accounts and the judgements required for determining that it is fair, balanced and understandable.



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**THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND  
AUDITOR GENERAL TO THE HOUSE OF COMMONS**

**Opinion on financial statements**

I certify that I have audited the financial statements of the Levy Account for the year ended 31 March 2022 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, the Statement of material transactions inconsistent with the Act and the related notes including the significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and Local Government Finance Act 1988.

In my opinion, the financial statements:

- properly present the amounts debited and credited to the Levy Account for the year ended 31 March 2022; and
- 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 income and expenditure 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..

**Basis of opinions**

I conducted my audit in accordance with International Standards on Auditing (UK) (ISAs UK), applicable law 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 2019. I have also elected to apply the ethical standards relevant to listed entities. I am independent of the Department for Levelling Up, Housing and Communities in accordance with the ethical requirements that are relevant to my audit of 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.

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## **Conclusions relating to going concern**

In auditing the financial statements, I have concluded that the Accounting Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the appropriateness of preparing the Levy Account on a going concern basis for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the Accounting Officer with respect to going concern are described in the relevant sections of this certificate.

The going concern basis of accounting for the Levy Account is adopted in consideration of the requirements set out in HM Treasury's Government Financial Reporting Manual, which require entities to adopt the going concern basis of accounting in the preparation of the financial statements where it anticipated that the services which they provide will continue into the future.

## **Other information**

The other information comprises information included in the foreword, and the Statement of Accounting Officer's Responsibilities but does not include the financial statements nor my auditor's certificate and report. The Accounting Officer is responsible for the other information.

My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my certificate, 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 other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated.

If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

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## **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:

- I have not received all of the information and explanations I require for my audit; or
- 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 are not in agreement with the accounting records and returns.

## **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:

- maintaining proper accounting records;
- ensuring the financial statements and foreword are properly presented in accordance with the applicable financial reporting framework;
- ensuring that the foreword and accounts as a whole is fair, balanced and understandable;
- internal controls as the Accounting Officer determines is necessary to enable the preparation of financial statement to be free from material misstatement, whether due to fraud or error; and
- assessing the appropriateness of preparing the Levy Account on a going concern basis, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Accounting Officer anticipates that the services provided by will not continue to be provided in the future.

## **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.

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a certificate that includes my opinion. 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.

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**Extent to which the audit was considered capable of detecting non-compliance with laws and regulations including fraud**

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulations, including fraud. The extent to which my procedures are capable of detecting non-compliance with laws and regulations, including fraud is detailed below.

**Identifying and assessing potential risks related to non-compliance with laws and regulations, including fraud**

In identifying and assessing risks of material misstatement in respect of non-compliance with laws and regulations, including fraud, I considered the following:

- the nature of the sector, control environment and operational performance including the design of the Department for Levelling Up, Housing and Communities' accounting policies for the Levy Account;
- Inquiring of management, the Department for Levelling Up, Housing and Communities' head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the Department for Levelling Up, Housing and Communities' policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the controls relating to the Department for Levelling Up, Housing and Communities' compliance with the Local Government Finance Act 1988 and Local Government Finance Act 2012.
- discussing among the engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, I considered the opportunities and incentives that may exist within the Department for Levelling Up, Housing and Communities for fraud and identified the greatest potential for fraud in the following areas: posting of unusual journals and complex transactions. In common with all audits under ISAs (UK), I am also required to perform specific procedures to respond to the risk of management override of controls.

I also obtained an understanding of the Department for Levelling Up, Housing and Communities' framework of authority as well as other legal and regulatory frameworks in which the Department for Levelling Up, Housing and Communities operates, focusing on those laws and regulations that had a direct effect on material amounts and disclosures in the Levy Account financial statements or that had a fundamental effect on the operations of the Department for Levelling Up, Housing and Communities. The key laws and regulations I considered in this context included the Local Government Finance Act 1988 and Local Government Finance Act 2012.

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In addition, I considered the nature of the control environment of the Department for Levelling Up, Housing and Communities, its business performance and performance indicators.

**Audit response to identified risk**

As a result of performing the above, the procedures I implemented to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described above as having direct effect on the financial statements;
- enquiring of management and the Audit and Risk Committee concerning actual and potential litigation and claims;
- reading and reviewing minutes of meetings of those charged with governance and the Board and internal audit reports;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud and continuous risk assessment procedures relating to fraud, non-compliance with laws and regulation or regularity; and
- substantive analytical procedures and tests of detail to confirm compliance with the requirements of the Local Government Finance Act 1988 and Local Government Finance Act 2012.

I also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of my certificate.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the amounts debited and credited in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

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.

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**Other auditor's responsibilities**

I am required to obtain evidence sufficient to give reasonable assurance that the income and expenditure reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

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.

**Report**

I have no observations to make on these financial statements.

**Gareth Davies**  
**Comptroller and Auditor General**

**15 July 2022**

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

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**Statement of amounts debited and credited to the Levy Account for the year ended 31 March 2022**

<b>Credits</b>	<b>Note</b>	<b>2021-22</b> £'000	<b>2020-21</b> £'000
Balance at 1 April		71,201	22,790
Levy amounts received from authorities		75,027	51,092
Safety net amounts received from authorities in respect of outturn adjustments		144	142
Credits as per Schedule 7B, para 20(2) of Local Government Finance Act (LGFA) 1988:	2.1	50,000	1,000
End of year credit item as per Schedule 7B para 21(3) of LGFA 1988:		-	-
<b>Total credits</b>		<b>196,372</b>	<b>75,024</b>

  

<b>Debits</b>	<b>Note</b>	<b>2021-22</b> £'000	<b>2020-21</b> £'000
Balance at 1 April			
Sums paid to authorities in respect of safety net outturn adjustments		17,757	470
Sums paid to authorities in respect of safety net on Account		36,882	3,353
Sums paid to authorities in respect of distribution of the remaining balances	2.3	-	-
End of year debit item as per Schedule 7B para 21(2) of LGFA 1988:	2.4	141,733	71,201
<b>Total debits</b>		<b>196,372</b>	<b>75,024</b>

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**Statement of Balances as at 31 March 2022**

	Note	2021-22 £'001	2020-21 £'000
Balance as at 1 April		(71,201)	(22,790)
Excess of (credits) / debits over amounts collected for the period		(70,532)	(48,411)
<b>Balance as at 31 March 2022</b>	2.4	<b>(141,733)</b>	<b>(71,201)</b>

Jeremy Pocklington  
Accounting Officer  
Ministry of Housing, Communities and Local Government

15 July 2022



## **Levy account for the year ended 31 March 2022**

### **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 a top-slice credit of £50 million from Revenue Support Grant in 2021-22 (£1 million in 2020-21) to help 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 £8,500 (in 2020-21 £8,500) 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 decision as part of the Local Government Finance Settlement for 2021-22 not to distribute the remaining surplus balance on the Levy Account to local authorities. This decision was taken in the expectation that take up of safety net payments is likely to increase in 2022-23. The surplus on the account will offset the cost of these payments.
- 2.4. There is a remaining credit balance of £142 million (£71 million in 2020-21) which will be taken forward into 2022-23. 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 on the account at the end of 2022-23 is to be distributed among one or more relevant authorities.

#### **Statement of material transactions inconsistent with the Act**

There were no material transactions which were inconsistent with the requirement of the Local Government Finance Act 1988.