

**NON-DOMESTIC RATING ACCOUNT (WALES)
2015-16**

LOCAL GOVERNMENT FINANCE ACT 1988

**POOLING OF NON-DOMESTIC RATES AND REDISTRIBUTION TO LOCAL
AUTHORITIES AND POLICE AND CRIME COMMISSIONERS IN WALES**

**Account prepared under Paragraph 1 of Schedule 8 to the Local Government
Finance Act 1988 (c.41)**

MANAGEMENT COMMENTARY

Statutory Background

1. The account for 2015-16 shows:

- a. sums received by the Welsh Ministers in 2015-16
 - i. under Section 54¹ in respect of non-domestic rates paid by ratepayers on the central rating list;
 - ii. under paragraph 5(5)² in respect of the provisional amount of non-domestic rates estimated by Billing Authorities³ to be collectable in 2015-16;
 - iii. under paragraph 5(9) in respect of the additional rates collected by Billing Authorities following the calculation of the final amounts of non-domestic rates due for 2014-15 and previous years, and from ratepayers on the central rating list following recalculations of amounts due; and
- b. payments made by the Welsh Ministers in 2015-16
 - i. under paragraph 5(10) in respect of the repayments to Billing Authorities of excess contributions following the calculation of the final amounts of non-domestic rates due for 2015-16 and previous years, and to ratepayers on the central rating list following recalculations of the amounts due; and
 - ii. under paragraph 12 in respect on non-domestic rates distributed to receiving authorities in proportion to resident adult population.

¹ Except where otherwise specified all references to "sections" relate to sections of the Local Government Finance Act 1988. The 1988 Act has been amended in particular by Schedule 5 to the Local Government and Housing Act 1989, Schedule 12 to the Local Government Finance Act 1992, The Non-Domestic Rating Act 1994 and the Local Government Act 2003.

² Except where otherwise specified all references to "paragraphs" relate to paragraphs of Schedule 8 to the 1988 Act

³ "Billing Authorities" are the County and County Borough Councils. "Receiving Authorities" are Billing Authorities and Police and Crime Commissioners.

2. Related accounts concerned with this expenditure are the Consolidated Resource Accounts for the Welsh Ministers for the period 1 April 2015 to 31 March 2016.

Pooling and Redistribution of Non-Domestic Rates

3. The Welsh Ministers receive non-domestic rates collected by Billing Authorities or paid by ratepayers on the central rating list. The Welsh Ministers are required to redistribute the contributions to Billing Authorities and Police and Crime Commissioners by head of resident 18-and-over years of age adult population (Local Government Finance Report 2015-16 Section 4.1). The non-domestic rates are thus pooled and redistributed. The operation of the pool is governed by Schedule 8 to the 1988 Act and regulations made under section 141.
4. Sums required for the making of payments by the Welsh Ministers for distribution of non-domestic rates are to be charged on the Welsh Consolidated Fund (paragraph 16). Welsh Ministers' receipts of non-domestic rates are to be surrendered to the Welsh Consolidated Fund (section 120 of the Government of Wales Act 2006). However, in order to avoid unnecessary cash transfers between the Welsh Government and Billing Authorities, only net payments are made. The account does however show as items of account all the non-domestic rates entitlements and liabilities which have been discharged rather than merely the net cash sums received or paid out.

Receipts from Billing Authorities (receipts less cost of collection)

5. A Billing Authority's non-domestic rates 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. costs of collection and recovery). A provisional calculation of the amount is made before the start of the financial year. The Welsh Ministers would make their own calculation if they believed that a Billing Authority's calculation was unlikely to have been made in accordance with regulations (made under paragraph 4). A Billing Authority may recalculate its provisional contribution during the year if the amount payable by ratepayers falls below the level of the prescribed threshold. The Welsh Ministers have then to adjust the Billing Authority's payments accordingly.

Prior Year Adjustments

6. After the end of the year, each authority has to calculate its actual contribution, arrange for it to be audited and send a copy of the unaudited claim form to the Welsh Ministers. The appointed auditor then undertakes the audit and forwards the original claim, certified and audited to Welsh Ministers. On receipt of the audited claim, any necessary adjustments are made to the Billing Authority's payments to accord with the calculation either by refunding any sum overpaid or requiring additional payments from the authority as appropriate. The prior years' adjustments shown in this account relate to 2014-15 and previous years. The adjustments for 2015-16 will appear in the 2016-17 non-domestic rating account.

7. Any subsequent changes to the amount payable to the Billing Authority in 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

8. An amount equivalent to the Welsh Ministers' estimate of the yield of non-domestic rates is distributed to receiving Billing Authorities and Police and Crime Commissioners each year. The sum to be distributed is calculated by the Welsh Ministers before the financial year using estimates of the items to be credited and debited to the account in the year. However, it is unlikely that the aggregate of payments into the pool in any one year would exactly equal the distributable amount. Any surplus or deficit on the account is carried forward.

Review of 2015-16

9. In 2015-16, the Welsh Ministers received £1,051 million of non-domestic rates and paid £1,037 million to Billing Authorities and Police and Crime Commissioners. The account for the year shows a surplus of contributions over amounts distributed of £14.4 million.
10. Receipts from central list ratepayers during 2015-16 totalled £78.3 million. £20.8 million was paid back to central list ratepayers during 2015-16 as a result of the reductions in the rateable values of Dŵr Cymru Cyfyngedig, Energis Communications and Cable and Wireless UK made by the Valuation Office Agency.
11. The total surplus for the year of £14.4 million has been deducted from the deficit of £20.9 million brought forward from 2014-15. The deficit carried forward at 31 March 2016 is therefore £6.5 million. It is intended that the account will balance over time.

Auditors

12. The non-domestic rating account is audited by the Auditor General for Wales.

**Sir Derek Jones KCB
Permanent Secretary and Principal Accounting Officer
Welsh Government**

3 August 2016

Statement of Accounting Officer's Responsibilities with respect to the Account

- 1 Section 129(6) of the Government of Wales Act 2006 has designated the Permanent Secretary as Principal Accounting Officer for the Welsh Ministers. The Principal Accounting Officer is responsible for the overall organisation, management and staffing of the Welsh Government. This includes responsibility for Welsh Government-wide systems in finance and other matters, where these are appropriate, and for the management of the Welsh Ministers' net cash requirement.
- 2 Under Schedule 8 of the Local Government Finance Act 1988, the Welsh Ministers are required to produce a non-domestic rating account in accordance with directions made by the Treasury. Responsibility for preparing and signing the account rests with the Principal Accounting Officer. The account is required to properly present the receipts and payments for the financial year, and the balance held at year end.
- 3 Under Section 133 of the Government of Wales Act 2006, the Principal Accounting Officer may designate other members of the Welsh Ministers' staff as Additional Accounting Officers. For 2015-16, the Principal Accounting Officer designated the Director General, Local Government and Communities and, from July 2015, the Deputy Permanent Secretary for Education and Public Services as the Additional Accounting Officers with responsibility for the non-domestic rating account. This designation does not detract from the Permanent Secretary's overall responsibility regarding the non-domestic rating account.
- 4 The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records, for safeguarding the Welsh Government's assets, and for taking reasonable steps to prevent and detect fraud and other irregularities, are set out in the Accounting Officers' Memorandum issued by HM Treasury.
- 5 The relationship between the Principal Accounting Officer and the Additional Accounting Officers, as described in paragraph 3 above, and their respective responsibilities are set out in a written agreement between the officials concerned.

GOVERNANCE STATEMENT 2015-16

Scope of Responsibility

As Principal Accounting Officer, I am responsible for ensuring that there is a high standard of probity in the management of public funds. In discharging this duty, I am responsible for maintaining a sound system of internal control that supports the achievement of the Welsh Government's policies, aims and objectives, facilitates the effective exercise of Welsh Ministers' functions and includes effective arrangements for the management of risk.

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 Welsh Government's policies, aims and objectives, to evaluate the likelihood and impact of those risks being realised and the processes to manage them efficiently, effectively and economically.

The system of internal control has been in place for the year ended 31 March 2016 and up to the date of approval of these accounts, and accords with HM Treasury guidance.

Financial Devolution of Non-Domestic Rates and Ministerial Responsibilities

The financial devolution of non-domestic rates occurred on 1 April 2015. The revenue from non-domestic rates available to the Welsh Government is now more directly linked to the performance of the Welsh economy. From this date, non-domestic rates have become Annually Managed Expenditure (AME) in the Welsh Budget (with a consequent reduction to the Departmental Expenditure Limit (DEL)).

Following the Assembly elections in May 2011, responsibility for non-domestic rates policy in relation to economic development transferred to the Minister for Economy, Science and Transport. Responsibility for the non-domestic rates as they relate to local government and local government finance matters, including the management of the non-domestic rates budget and pool, remained with the Minister with responsibility for local government, the Minister for Public Services. A management protocol to govern the initial handling of these arrangements by officials and provide the necessary assurances to Accounting Officers was agreed in September 2011.

Further to the financial devolution and the Welsh Government's organisational changes in June 2015, responsibilities for non-domestic rates were extended to also include the Minister for Finance and Government Business and, under that Minister, certain functions within the Welsh Government's Finance Department and Treasury Department.

To reflect these arrangements, a Statement of Ministerial Responsibilities was approved by all three portfolio Ministers and the First Minister on 2 April 2015.

Underpinning this was a management agreement setting out the administrative arrangements regarding the management of non-domestic rates matters. The revised agreement was signed in February 2016.

The Risk and Control Framework

The non-domestic rating account represents a significant component of Welsh Government funding to Local Government in Wales and is subject to a number of regulatory and internal control checks.

The distributable amounts of non-domestic rates for each financial year are based on estimates of the amount which will be collected and are set out in the annual Local Government Finance Reports. The reports are subject to Ministerial approval and are laid before the National Assembly for Wales. Throughout the financial year, the Welsh Government must also set out adjustments to the legislative requirements for the collection of non-domestic rates. These adjustments are subject to Ministerial approval and must be laid before Assembly Members.

Other specific controls that apply include:

- The distributable amounts of non-domestic rates are included as part of the Final Budget motion as a direct charge on the Welsh Consolidated Fund. The amounts represent a material contribution to the overall financing of the Budget and, as such, are an integral part of the plans which are subject to approval by the National Assembly.
- The estimates of non-domestic rates to be distributed for the forthcoming year and forecasts for future years are provided to the Office for Budget Responsibility for consideration and inclusion in its overall UK public finances forecasts, together with explanatory notes on sources and methodology.
- Throughout the financial year, the amounts of non-domestic rates collected by Billing Authorities are reported to the Welsh Government via formal submissions. These submissions are subject to checks undertaken by the Wales Audit Office.
- Income and Expenditure relating to non-domestic rates is monitored throughout the financial year as part of the month-end financial monitoring procedures employed by the Welsh Government.

Review of Effectiveness

As Principal Accounting Officer, I am responsible for reviewing the effectiveness of the system of internal control. I take assurance from a wide spectrum of activities and my review of the effectiveness of the system of internal control is informed by the work of the internal auditors; and of the executive managers within the Welsh Government who have responsibility for the development and maintenance of the internal control framework, and for acting on comments made by the external auditors in their management letter and other reports. I have been advised on the

implications of my review of the effectiveness of the system of internal control by the Board and the Corporate Governance Committee.

The Welsh Government has an Internal Audit Service which operates to standards defined in the Public Sector Internal Audit Standards. It undertakes a full programme of work based upon an analysis of the major risks facing the organisation. The Head of Internal Audit submits regular reports to the former Corporate Governance Committees and, since January 2016, to the new Audit and Risk Assurance Committee on progress in implementing the plans. The service also prepares an annual independent opinion on the adequacy and effectiveness of the system of internal control. I regularly meet members of the service to discuss the current activity and specific internal control issues.

Throughout the year, the Internal Audit Service continued to coordinate its work with that of the Wales Audit Office. A joint working protocol underpins the approach taken by all parties and quarterly liaison meetings are held to share information and agree joint assignments.

For the majority of the 2015-16 financial year, responsibilities for non-domestic rates were shared between the Deputy Permanent Secretary for Education and Public Services, the Deputy Permanent Secretary for Economy, Science and Natural Resources and the Director for the Treasury Department. The Deputy Permanent Secretary for Education and Public Services had lead Additional Accounting Officer responsibility for the management of the non-domestic rates budget and pool, including the preparation of this Account. The management arrangements were revised to reflect these changes.

In January 2016, an Internal Audit report issued in relation to the operation of the non-domestic rating protocol provided substantial assurance regarding the controls in place.

The opinion of the Head of Internal Audit, set out in their annual assurance report, is that overall the Welsh Government has a sound framework of internal controls which provides reasonable assurance on the Welsh Government's overall arrangements for risk management, control and governance.

Drawing on the work of the Corporate Governance Committee and Audit and Risk Assurance Committee over the year, the Chair's Annual Report for 2015-16 provided substantial assurance on the adequacy of audit arrangements for the Welsh Government and on the assurances provided to me as Principal Accounting Officer in respect of the governance, risk management and control arrangements operated within the organisation.

Based on my review of internal controls and all other information available to me, I am satisfied that the non-domestic rating controls in place during the year were appropriate.

Information Governance

As Principal Accounting Officer, I am responsible for ensuring that appropriate arrangements are in place to comply with the core set of mandatory minimum measures to protect information in Government Departments and Devolved Administrations, which require me to assess our risk and ensure appropriate mitigation strategies are in place.

Information risk continues to have a high priority throughout the Welsh Government, featuring in departmental risk registers. There were no instances of reported information losses which specifically relate to the non-domestic rating account.

Where third parties handle our information, it is vital that we tell them how to do so as we often retain legal liability for that information even if it is the third party that releases the information in error. We regularly assess the way that third parties handle our personal information using the HADRIAN online assessment tool. Information assurance clauses are included as standard in requirement specifications.

Information risk continues to be supported by the Welsh Government's accreditation against ISO 27001 – the international standard for information security management. This provides assurances that the corporate ICT systems and associated security policies comply with the requirements of the standard and are aligned with recommended procedures. The Internal Compliance Programme for 2015-16, conducted by the Internal Audit Service and the external accreditation inspections concluded that the Welsh Government has robust processes in place and has met its commitments under the standard.

Sir Derek Jones KCB
Permanent Secretary and Principal Accounting Officer
Welsh Government
3 August 2016

THE CERTIFICATE AND REPORT OF THE AUDITOR GENERAL FOR WALES TO THE NATIONAL ASSEMBLY FOR WALES

I certify that I have audited the financial statements for the Non-Domestic Rating Account of Welsh Ministers for the year ended 31 March 2016 under the Local Government Finance Act 1988. These comprise the Receipts and Payments Account, Statement of Balances and the related notes. These financial statements have been prepared on a cash basis under Schedule 8 to the Local Government Finance Act 1988.

Respective responsibilities of the Principal Accounting Officer and the Auditor

As explained more fully in the Statement of the Principal Accounting Officer's Responsibilities, the Principal Accounting Officer is responsible for preparing the financial statements, in accordance with the Local Government Finance Act 1988 and HM Treasury directions made thereunder, and for ensuring the regularity of financial transactions.

My responsibility is to audit the financial statements in accordance with applicable law and with International Standards on Auditing (UK and Ireland). These standards require me to comply with the Auditing Practice Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the receipts and payments have been applied to the purposes intended by the National Assembly for Wales and the financial transactions conform to the authorities who govern them.

In addition, I read all the financial and non-financial information in the Management Commentary to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

Opinion on Financial Statements

In my opinion the financial statements:

- properly present the balances, receipts and payments of the Non-Domestic Rating Account for the year ended 31 March 2016; and
- have been properly prepared, in accordance with Schedule 8 to the Local Government Finance Act 1988 and directions made there under by HM Treasury.

Opinion on Regularity

In my opinion, in all material respects, the receipts and payments have been applied to the purposes intended by the National Assembly for Wales and the financial transactions conform to the authorities which govern them.

Opinion on other matters

In my opinion the information in the Management Commentary is consistent with the financial statements.

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:

- the Annual Governance Statement does not reflect compliance with HM Treasury guidance;
- proper accounting records have not been kept;
- 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.

Huw Vaughan Thomas
Auditor General for Wales
24 Cathedral Road
Cardiff
CF11 9LJ

16 August 2016

NON-DOMESTIC RATING ACCOUNT (WALES)

Receipts and Payments Account for the Year Ended 31 March 2016

	2015-16 £000	2014-15 £000
Receipts		
Contributions from Local Authorities	971,611	959,866
Contributions from Central List Ratepayers	78,333	77,719
Gross Additional Receipts as a result of final recalculations for 2014-15 and previous years	1,005	594
Total Receipts	1,050,949	1,038,179
Payments		
Sums paid to Local Authorities and Police and Crime Commissioners as the Distributable Amount for 2015-16	956,000	1,041,000
Sums paid to Local Authorities as a result of the final recalculations for 2014-15 and previous years	59,695	64,135
Sums paid to Central List as a result of final recalculations	20,821	2,738
Total Distributions	1,036,516	1,107,873
Surplus/(Deficit) of contributions over amounts distributed for the year	14,433	(69,694)

The following notes form part of this Account.

Statement of Balances

	2015-16 £000	2014-15 £'000
Balance at 1 April	(20,933)	48,761
Plus Surplus/(Deficit) of contributions over amounts distributed for the year	14,433	(69,694)
Balance at 31 March	(6,500)	(20,933)

**Sir Derek Jones KCB
Permanent Secretary and Principal Accounting Officer
Welsh Government**

3 August 2016

NON-DOMESTIC RATING ACCOUNT FOR THE YEAR ENDED 31 MARCH 2016

NOTES

- 1 Under paragraph 1 of Schedule 8 of the Local Government Finance Act 1988, the Welsh Ministers are required to prepare an account (to be called a Non-Domestic Rating Account) for each financial year in the form and on the basis directed by HM Treasury. 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 the year-end.
- 2 Billing Authorities are required to calculate their non-domestic rates contribution for the year before it begins on the basis of certain prescribed assumptions (the provisional amount: paragraph 5(2) and to make their contribution in regular instalments during the year (paragraph 5(5)). After the year end, the contribution is recalculated on the basis of outturn information (paragraph 5(6)) and adjustment payments made to or by authorities as appropriate. Whilst the account shows the full amount 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 Welsh Ministers and Billing Authorities.
- 3 The outturn adjustments made comprised receipts from Billing Authorities of £1.005 million. Payments made to Billing Authorities totalled £59.695 million.
- 4 The Welsh Ministers paid out the distributable amount of £956 million for 2015-16 (£1.041 billion for 2014-15), as set out in the Local Government Finance Reports for 2015-16. The distributable amount was paid to receiving Billing Authorities and Police and Crime Commissioners in proportion to their resident adult populations.
- 5 Surpluses at the end of the year are carried forward by debiting the account for the year and crediting next year's account. Deficits at the end of the year are carried forward to the following year by crediting this year's account and debiting the following year's. This is to ensure that, when years are taken together, all non-domestic rates paid to the pool are equivalent to the sums distributed to Billing Authorities and Police and Crime Commissioners.
- 6 As at 31 March 2016, the Central List Receipts Account showed a balance of nil, the total receipts of £78.33 million for the year having been surrendered to the Welsh Consolidated Fund. The Central List Payments account also showed a nil balance, the four payments made during the year as a result of recalculated bills being offset by funding from the Welsh Consolidated Fund.