

2006-2007

LOCAL GOVERNMENT FINANCE ACT 1988

POOLING OF NON-DOMESTIC RATES AND REDISTRIBUTION TO LOCAL AUTHORITIES 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 2006-2007 shows:

- a) sums received by the National Assembly for Wales in 2006-2007
 - 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 2006-2007;
 - 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 2005-2006 and previous years, and from ratepayers on the central rating list following recalculations of amounts due; and
- b) payments made by the National Assembly for Wales in 2006-2007
 - 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 2005-2006 and previous years, and to ratepayers on the central rating list following recalculations of the amounts due; and
 - ii) under paragraph 5(10) in respect on non-domestic rates distributed to receiving authorities in proportion to resident population.

2 Related accounts concerned with this expenditure are the consolidated resource account for the National Assembly for Wales for the period 1 April 2006 to 31 March 2007.

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 authorities.

Pooling and Redistribution of Non-Domestic rates

3. The Assembly received non-domestic rates collected by billing authorities or paid by ratepayers on the central rating list. The Assembly was then required to redistribute the contributions to local authorities and police authorities by head of resident adult population (Local Government Finance Report 2006-2007 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. Section 84(3) of the Government of Wales Act 1998 states that amounts received by the Assembly under the Local Government Finance Act 1988 in respect of non-domestic rating are not required to be paid into the Consolidated Fund. However, for administrative convenience, and with the approval of the Treasury non-domestic rates paid to and by the Assembly are credited to, or drawn from, the Consolidated Fund. Additionally, in order to avoid unnecessary cash transfers between the Assembly and authorities, only net payments are made. The account does however show as items of account all the non-domestic rate entitlements and liabilities which have been discharged rather than merely the net cash sums received or paid out.

Receipts from Billing Authorities

5. 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. costs of collection and recovery). A provisional calculation of the amount is made before the start of the financial year. The Assembly would make its own calculation if it believed that the authority's calculation was unlikely to have been made in accordance with regulations (made under paragraph 4). An authority may recalculate its provisional contribution during the year if the amount payable by ratepayers falls below the level of the prescribed threshold. The Assembly has then to adjust the 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 Assembly. On receipt of the audited claim the Assembly has to adjust the 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 2005-2006 and previous years. The adjustments for 2006-2007 will appear in the 2007-2008 non-domestic rating account.
7. Any subsequent changes to the amount payable to the 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 Assembly's estimate of the yield of non-domestic rates is distributed to receiving authorities each year. The sum to be distributed is calculated by the Assembly 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 2006-2007

9. In 2006-07 the Assembly received £ 718.1 million of non-domestic rates and paid to authorities £ 730 million. The account for the year shows a surplus of contributions over amounts distributed of £ 48.82 million.
10. The surplus for the year has been added to the deficit of £2.768 million brought forward. The surplus carried forward at 31 March 2007 is therefore £46.052 million. It is intended that the account will balance over time.
11. Receipts from central list ratepayers during 2006-07 totalled £ 70.422 million. £6,585.01 was paid back to central list ratepayers during 2005-06 as a result of reductions in rateable value of Gas Transportation Company Limited made by the Valuation Office Agency on 1st June 2006.

Post Balance Sheet Events

12. The Government of Wales Act received Royal assent on 25 July 2006. The Act requires the establishment of a Welsh Consolidated Fund which will receive funds from the Secretary of State out of monies voted by Parliament. Payments out of the Fund will be used to meet the costs of Welsh Assembly Government programmes. **From 1 April 2007, the receipts and payments relating to non-domestic rates will be shown in the accounts of the Welsh Consolidated Fund. The non-domestic rating account will continue to exist**

Auditors

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

Sir Jon Shortridge
Permanent Secretary and Accounting Officer
National Assembly for Wales

12 November 2007

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 (PAO) for the Welsh Ministers. The PAO is responsible for the overall organisation, management and staffing of the Welsh Assembly Government. This includes responsibility for Assembly Government -wide systems in finance and other matters, where these are appropriate, and for the management of the Assembly Government's 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 PAO. 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 PAO may designate other members of the Assembly Government's staff as additional Accounting Officers. The PAO has designated the Director of Local Government and Culture as Sub-Accounting Officer for the Department of Local Government and Culture. This appointment does not detract from the Permanent Secretary's overall responsibility as regards 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 Assembly 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 PAO and the other Accounting Officers and Sub-Accounting Officers, as described in paragraph 3 above, and their respective responsibilities, is set out in a written agreement between the officials concerned.

Statement on Internal Control 2006-07

1. Scope of Responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control which supports the achievement of the Assembly's policies, aims and objectives, and for safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in my appointment letter. I have delegated some of these responsibilities to the other Accounting Officers, as explained in the Statement of Assembly Accounting Officers' Responsibilities, the relationship between us being set out in a written statement.

Accountability arrangements in place include:

- formal systems of Delegations from Ministers to officials and between officials;
- appointment of Non-Executive Directors to the Assembly's Executive Board;
- Corporate Governance Committee, chaired by a Non-Executive Director;
- work of Internal & External Audit;
- regular meetings with/and reports from other Accounting Officers;
- assurance gained from internal control questionnaires completed by Heads of Department;
- training for Accounting Officers and for all staff exercising financial responsibilities; and
- formal budgeting system in place and reporting against that system.

As allowed for in s133 (2) of the Government of Wales Act 2006, I have designated heads of department with responsibility for programme expenditure as Sub Accounting Officers (SAO). These responsibilities are set out in a formal memorandum and strengthen corporate governance arrangements further by placing personal responsibility with the designated SAOs for the propriety and regularity of the public finances for which they are answerable. The SAOs also have responsibility to see that appropriate advice is provided to their Assembly Ministers on all matters of financial propriety and regularity and more broadly as to all considerations of prudent and economical administration, efficiency and effectiveness.

Sub Accounting Officers have established their own corporate governance committees to support them by monitoring and reviewing the risk, control and governance processes that have been established in the department and the associated assurance processes.

I, however, retain overall responsibility for ensuring that appropriate internal controls are in place.

2. The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level – it cannot provide 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 Assembly 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 the Assembly for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts, and accords with HM Treasury guidance.

3. Capacity to Handle Risk

As Accounting Officer, I have taken personal responsibility for improving the National Assembly for Wales capacity to handle risk. We continue to engage with HM Treasury's Risk Support Team and the dissemination of good practice via the Risk Improvement Manager Network. My Risk Improvement Manager is leading a programme of reviewing and improving risk management practice and supports senior management in ensuring that there is a clear and balanced account of risk judgements and management actions. To further build the capacity a programme of risk management training for senior managers is currently being rolled out. Individual training has also occurred throughout the year, as business areas have

consulted the Assembly's Risk Improvement Manager for advice on specific issues. The Risk Improvement Manager hosts a risk management site on the Assembly's intranet, which acts as the focal point for written advice, guidance, tools and good practice on risk management.

I have in place a risk management policy. It outlines the process of risk management that aims to:

- a) ensure that the Assembly's objectives are not adversely affected by significant risks that have not been anticipated;
- b) ensure achievement of outputs and outcomes and provide reliable contingency arrangements to deal with the unexpected which might put service delivery at risk;
- c) promote a more innovative, less risk averse culture in which the taking of appropriate risks in pursuit of opportunities to benefit the Assembly is encouraged;
- d) provide a sound basis for integrating risk management into our day to day decision making; and
- e) promote excellent corporate governance and management practices.

Our approach to risk management is set out in our framework document, Risk Essentials, which sets out in detail the processes by which risks are identified and managed within the Assembly. Under this framework, departments are required to capture information on known risks on departmental risk registers (which include details of the risks, countermeasures and residual risk) and escalate concerns up the management chain as appropriate.

4. The Risk and Control Environment

The main processes that we have in place for identifying, evaluating, and managing risk are:

- departmental risk registers – giving identification of key risks across all areas of the Assembly. Each department has developed, monitors and takes ownership of its own risk register, underpinned by lower level risk registers;
- Management Board risk register – which sets out the corporate risks facing the Assembly;
- regular review of both – members of the Management Board consider “risk of the month” and departmental “Top Ten” risk reports, and
- regular review and update of departmental risk registers by the departments themselves.

Our management of risk is embedded in policymaking, planning and delivery by:

- awareness raising through delivery of a training module to key staff;
- development of a policy making training course;
- establishment of a community of practice for project management experiences and good practice to be exchanged;
- training for project/programme managers and other staff who have an involvement in the management of risk;
- raising awareness of risk management with Ministers; and
- linking risk to the Assembly's Operational Plan.

Our risk environment involves managing risks that impact on the public, and these are managed by:

- health and safety risk assessments at Divisional and Departmental levels; and
- oversight of the Assembly's compliance with statutory functions to the Corporate Governance Committee on a quarterly basis.

To review the control environment I require each head of department within the Assembly to complete an internal control questionnaire to provide assurance that key internal controls are in place in every department.

5. Review of Effectiveness

The Assembly Government has an Internal Audit Service, which submits regular reports to the Corporate Governance Committee, including the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the system of internal control together with recommendations for improvement. The Corporate Governance Committee reports to the Management Board.

As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by:

- the work of the internal auditors;
- Assembly officials who have responsibility for the development and maintenance of the internal control framework and who are required to provide certificates of assurance relating to their system of internal control; and
- comments made by the external auditors in their management letter and other reports.

The Corporate Governance Committee has advised me on the implications of the result of my review of the effectiveness of the system of internal control, and a plan to ensure continuous improvement of the system is in place. In particular, and since the end of the financial year, I have approved the Outline Business Case for a Finance Change Programme intended to secure improvements in financial planning, budgeting and reporting across the Welsh Assembly Government.

Sir Jon Shortridge

Permanent Secretary and Accounting Officer
National Assembly for Wales

12 November 2007

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

I certify that I have audited the financial statements on pages 10 to 12 under the Local Government Finance Act 1988.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 4, the Accounting Officer is responsible for the preparation of 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. The Accounting Officer is also responsible for the preparation of the Management Commentary. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements properly present the receipts and payments of the National Assembly for Wales in respect of non-domestic rating, and are properly prepared in accordance with the Government Finance Act 1988 and HM Treasury directions made thereunder, and whether in all material respects the receipts and payments have been applied to the purposes intended by the National Assembly for Wales and conform to the authorities which govern them. I also report to you if, in my opinion, the Management Commentary is not consistent with the financial statements, if proper accounting records have not been kept, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on pages 5 to 7 reflects compliance with HM Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by HM 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 National Assembly for Wales' corporate governance procedures or its risk and control procedures.

Basis of audit opinion

I conducted my audit in accordance with international Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the 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 the National Assembly for Wales 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 of the National Assembly for Wales in respect of non-domestic rating for the year ended 31 March 2007;
- the financial statements have been properly prepared in accordance with Schedule 8 to the Local Government Finance Act 1988 and directions made thereunder by the HM Treasury; and

Audit 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 conform to the authorities which govern them.

I have no observations to make on these financial statements.

Jeremy Colman
Auditor General for Wales
15 November 2007

Wales Audit Office
2- 4 Park Grove,
Cardiff
CF10 3PA

NON-DOMESTIC RATING ACCOUNT (WALES)

Receipts and Payments Account for the Year Ended 31 March 2007

	2006-07 £'000	2005-06 £'000
<u>Receipts</u>		
Contributions from Local Authorities	718,051	678,574
Contributions from Central List Ratepayers	70,422	68,921
Gross Additional Receipts as a result of final recalculations for 2005-06 and previous years	6,067	3,192
Total Receipts	794,540	750,687
<u>Payments</u>		
Sums paid to Local Authorities as the Distributable Amount for 2006-07	730,000	672,000
Sums paid to Local Authorities as a result of the final recalculations for 2005- 06 and previous years	15,713	26,425
Sums paid to central list as a result of final recalculations	7	329
Total Distributions	745,720	698,754
Surplus/(Deficit) of contributions over amounts distributed for the year	48,820	51,933

The notes on page 12 form part of this account

Statement of balances

	2006-07 £'000	2005-06 £'000
Balance at 1 April	(2,768)	(54,701)
Less surplus /(deficit) of contributions over amounts distributed for the year	48,820	51,933
Balance as at 31 March	<u>46,052</u>	<u>(2,768)</u>

Sir Jon Shortridge
Permanent Secretary and Accounting Officer
National Assembly for Wales

12 November 2007

NON-DOMESTIC RATING ACCOUNT FOR THE YEAR ENDED 31 MARCH 2007

NOTES:

1. Under paragraph 1 of the Government of Wales Act 1988 the National Assembly for Wales is 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. Authorities are required to calculate their non-domestic rate 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 Assembly and local authorities.
3. The out-turn adjustments made comprised receipts from local authorities of £6.067million. Payments made to local authorities totalled £ 15.713 million.
4. The Assembly paid out the distributable amount of £730 million for 2006-07, (£672 million 2005-2006) as set out in the Local Government Finance Report (Wales) 2007-08. The distributable amount was paid to receiving authorities in proportion to their resident population.
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 next 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 authorities.
6. As at 31 March 2007, the Central List Payments Account showed a deficit of £435,375.09, and the Central List Retention List showed a credit of £5,162,869.55. On 18 May 2007 the suspense account was closed and the balance transferred to the Central List Payments account. In May 2007 the balance of £4,727,494.46 was paid to CFER, leaving a balance of nil.