

**2007-2008**

**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 2007-2008 shows:

- a) sums received by the Welsh Ministers in 2007-2008
  - i) under Section 54<sup>1</sup> in respect of non-domestic rates paid by ratepayers on the central rating list;
  - ii) under paragraph 5(5)<sup>2</sup> in respect of the provisional amount of non-domestic rates estimated by billing authorities<sup>3</sup> to be collectable in 2007-2008;
  - 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 2006-2007 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 2007-2008
  - 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 2006-2007 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 population.

2 Related accounts concerned with this expenditure are the consolidated resource account for the Welsh Ministers for the period 1 April 2007 to 31 March 2008.

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<sup>1</sup> 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.

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

<sup>3</sup> "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 Welsh Ministers receive non-domestic rates collected by billing authorities or paid by ratepayers on the central rating list. The Welsh Ministers are then required to redistribute the contributions to local authorities and police authorities by head of resident adult population (Local Government Finance Report 2007-2008 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 on non-domestic rates are to be charged on the Welsh Consolidated Fund (paragraph 16). Welsh Ministers' receipts of non-domestic rate 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 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 Welsh Ministers 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 Welsh Ministers 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 Welsh Ministers. On receipt of the audited claim the Welsh Ministers have 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 2006-2007 and previous years. The adjustments for 2007-2008 will appear in the 2008-2009 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 Welsh Minister'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 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 2007-2008**

9. In 2007-08 the Welsh Ministers received £749.2 million of non-domestic rates and paid to authorities £791 million. The account for the year shows a surplus of contributions over amounts distributed of £ 15.2 million.
10. The surplus for the year has been added to the surplus of £46.052 million brought forward. The surplus carried forward at 31 March 2008 is therefore £61.248 million. It is intended that the account will balance over time.
11. Receipts from central list ratepayers during 2007-08 totalled £72.978 million. £11,102.46 was paid back to central list ratepayers during 2007-08 as a result of reductions in rateable value of ESP Pipelines Limited, Gas Transportation Company Limited and Cable and Wireless UK made by the Valuation Office Agency on 1<sup>st</sup> April 2006, 1<sup>st</sup> May 2006 and 1<sup>st</sup> April 2000 respectively.

### **Auditors**

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

Dame Gillian Morgan  
Permanent Secretary and Accounting Officer  
Welsh Assembly Government

11 September 2008

## **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 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 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 Welsh Ministers' 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 2007-08**

### **1. Scope of Responsibility**

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

Accountability arrangements in place include:

- The appointment of Non-Executive Directors to the Welsh Assembly Government's Management Board;
- Introducing the WAO recommendation for non-executive members to chair all committees.
- My Corporate Governance Committee, chaired by a Non-Executive Director;
- The work of both Internal and External Audit;
- My regular meetings with/and reports from the Additional Accounting Officers;
- The assurance gained from annual internal control questionnaires completed by heads of departments; and
- The provision of training for Accounting Officers and for all staff exercising financial responsibilities.

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 Additional Accounting Officers (AAO). These responsibilities are set out in a formal memorandum and strengthen corporate governance arrangements further by placing personal responsibility with the designated AAOs for the propriety and regularity of the public finances for which they are answerable. The AAOs also have responsibility to see that appropriate advice is provided to Welsh Ministers on all matters of financial propriety and regularity and, more broadly, as to all considerations of prudent and economical administration, efficiency and effectiveness.

AAOs 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 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 Welsh Assembly Government 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 Welsh Assembly Government for the year ended 31 March 2008 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 Welsh Assembly Government's capacity to handle risk. We continue to engage with HM Treasury's Assurance, Control and Risk 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 series of facilitated risk management workshops for senior managers has been rolled out. Individual training has also occurred throughout the year, as business areas have consulted my Risk Improvement Manager for advice on specific issues. There is a risk management site on the Welsh Assembly Government's intranet site, 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 Welsh Assembly Government'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 Welsh Assembly Government 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 Welsh Assembly Government.

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 Welsh Assembly Government. Each department has developed, monitors and takes ownership of its own risk register, underpinned by lower level risk registers;
- Management Board's risk register – which sets out the corporate risks facing the Welsh Assembly Government;
- A sub-committee of the Management Board considers "risk of the month" and departmental "top ten" risk reports;
- Regular review and update of departmental risk registers by the departments themselves; and
- Each Corporate Governance Committee monitors the operation of departmental risk registers.

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 Welsh Ministers; and
- Linking risk to the Welsh Assembly Government's Operational Plan.

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

- Health and safety risk assessments, which are being embedded in divisional and departmental activity; and

- Oversight of the Welsh Assembly Government's compliance with statutory functions by my Corporate Governance Committee on a quarterly basis.

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

My Additional Accounting Officers and I are fully supporting the Corporate Finance Change Programme (IDEAS) which is a continuous improvement programme aimed at improving financial management across the Welsh Assembly Government and addressing some of the weaknesses that have been identified in relation to the current financial and procurement processes and procedures. Phase I of the programme, the installation of an Enterprise and Resource Planning (ERP) system so that all finance activity is accessed through an ERP Portal to a SAP system, went live on 1 April 2008.

The Government of Wales Act 2006 introduced separate ambits for expenditure by each department of the Welsh Assembly Government, and resources drawn from the Welsh Consolidated Fund against each ambit are now being monitored through the new finance system.

#### **5. Review of Effectiveness**

As Accounting Officer, I 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 and the executive managers within the Welsh Assembly Government who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and the Corporate Governance Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The Welsh 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.

Dame Gillian Morgan  
Permanent Secretary and Principal Accounting Officer  
11 September 2008

## **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 of Welsh Ministers for Non-Domestic Rates under the Local Government Finance Act 1988. These statements comprise of the Receipts and Payments Account, Statement of Balances and related notes and have been prepared on a cash basis.

### **Respective responsibilities of the Principal Accounting Officer and Auditor**

The Principal Accounting Officer is responsible for the preparing the financial statements in accordance with the Local Government Finance Act 1988 and in the form prescribed by HM Treasury. The Principal Accounting Officer is also responsible for ensuring the regularity of financial transactions and the preparation of the Management Commentary and Statement on Internal Control. 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 Welsh Ministers in respect of non-domestic rating and the balances held, and have been properly prepared in accordance with the Local Government Finance Act 1988 and HM Treasury directions made there under, and whether in all material respects the receipts and payments have been applied to the purposes intended by the HM Treasury and conform to the authorities which govern them. I also report to you if, in my opinion, the Management Commentary is consistent with the financial statements.

In addition, I report to you if in my opinion Welsh Ministers have not kept proper accounting records or if I have not received all the information and explanations I require for my audit

I review whether the Statement on Internal Control reflects the Welsh Minister's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of the Welsh Ministers' corporate governance procedures or their 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 receipts and payments included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Principal 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 fraud or error and that, in all material respects, the receipts and payments have been applied to the purposes intended by HM Treasury and the financial transactions 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 Welsh Ministers in respect of non-domestic rating for the year ended 31 March 2008;



- the financial statements have been properly prepared in accordance with Schedule 8 to the Local Government Finance Act 1988 and directions made there under by HM Treasury;
- Information within the Management Commentary is consistent with the financial statements.

### **Audit Opinion on Regularity**

In my opinion, in all material respects the receipts and payments have been applied to the purposes intended by HM Treasury and conform to the authorities which govern them.

### **Report**

I have no observations to make on these financial statements.

**Jeremy Colman**  
Auditor General for Wales  
18 September 2008

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## NON-DOMESTIC RATING ACCOUNT (WALES)

### Receipts and Payments Account for the Year Ended 31 March 2008

	<b>2007-08</b> £'000	<b>2006-07</b> £'000
<b><u>Receipts</u></b>		
Contributions from Local Authorities	749,216	718,051
Contributions from Central List Ratepayers	72,978	70,422
Gross Additional Receipts as a result of final recalculations for 2006-07 and previous years	1,529	6,067
<b>Total Receipts</b>	<b>823,723</b>	<b>794,540</b>
<b><u>Payments</u></b>		
Sums paid to Local Authorities as the Distributable Amount for 2007-08	791,000	730,000
Sums paid to Local Authorities as a result of the final recalculations for 2006-07 and previous years	17,516	15,713
Sums paid to central list as a result of final recalculations for 2006-07 and previous years	11	7
<b>Total Distributions</b>	<b>808,527</b>	<b>745,720</b>
Surplus/(Deficit) of contributions over amounts distributed for the year	<b>15,196</b>	<b>48,820</b>

The notes on page 12 form part of this account

**Statement of balances**

	<b>2007-08</b>	<b>2006-07</b>
	£'000	£'000
Balance at 1 April	46,052	(2,768)
Less (deficit) or plus surplus of contributions over amounts distributed for the year	15,196	48,820
Balance as at 31 March	<u><b>61,248</b></u>	<u><b>46,052</b></u>

Dame Gillian Morgan  
Permanent Secretary and Accounting Officer  
Welsh Assembly Government

11 September 2008

## **NON-DOMESTIC RATING ACCOUNT FOR THE YEAR ENDED 31 MARCH 2008**

### **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. 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 Welsh Ministers and local authorities.
3. The out-turn adjustments made comprised receipts from local authorities of £1.529million. Payments made to local authorities totalled £ 17.516 million.
4. The Welsh Ministers paid out the distributable amount of £791 million for 2007-08, (£730 million 2006-2007) 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 2008, the Central List Receipts Account showed a balance of nil, the total receipts of £72,978,204.92 for the year having been surrendered to the Welsh Consolidated Fund. The Central List Payments account also showed a nil balance, the 3 payments made during the year as a result of re-calculated bills being offset by funding from the Welsh Consolidated Fund.