

**2008-2009**

**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 2008-2009 shows:

- a) sums received by the Welsh Ministers in 2008-2009
  - 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 2008-2009;
  - 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 2007-2008 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 2008-2009
  - 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 2007-2008 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 2008 to 31 March 2009.

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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 2008-2009 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 2007-2008 and previous years. The adjustments for 2008-2009 will appear in the 2009-2010 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 2008-2009**

9. In 2008-09 the Welsh Ministers received £812.3 million of non-domestic rates and paid to authorities £868 million. The account for the year shows a deficit of contributions over amounts distributed of £ 0.48 million.
10. The deficit for the year has been added to the surplus of £61.2 million brought forward. The surplus carried forward at 31 March 2009 is therefore £60.8 million. It is intended that the account will balance over time.
11. Receipts from central list ratepayers during 2008-09 totalled £75.9 million. £3.4 million was paid back to central list ratepayers during 2008-09 as a result of reductions in rateable value of ESP Pipelines Limited and British Telecom made by the Valuation Office Agency.

### **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

26th August 2009

## **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 Social Justice and Local Government as Additional Accounting Officer for the Department of Social Justice and Local Government. 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 additional 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 2008-09

### 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 Welsh Public Money. I have delegated some of these responsibilities to the other Accounting Officers, as explained in the Statement of Welsh Assembly Government 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 Strategic Delivery and Performance Board (SDPB) that, during 2008/09, succeeded the Management Board;
- Corporate Governance Committee, chaired by a Non-Executive Director;
- work of both Internal and External Audit;
- regular meetings with/and reports from Additional Accounting Officers;
- assurance gained from annual internal control questionnaires completed by heads of department; and
- 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 directors with responsibility for programme expenditure as Additional Accounting Officers (AAO). From 1 April 2009, Directors General (DG) have been appointed and have taken on these roles as 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.

All Directors General are supported by their own corporate governance committees which monitor and review 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 2009 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 Principal Accounting Officer, I have taken personal responsibility for improving the Welsh Assembly Government's capacity to handle risk. We continue to work with HM Treasury to share good practise via the Risk Improvement Group. My Risk Improvement Manager supports senior management in ensuring that there is a clear and balanced account of risk judgements and management actions. To further build the capacity 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 area 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 Framework

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

- departmental risk registers – showing 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;
- SDPB's risk register – which sets out the corporate risks facing the Welsh Assembly Government;
- regular review and update of departmental risk registers by the departments themselves;
- both the SDPB's Corporate Governance Committee and each of the DG Corporate Governance Committees monitor the operation and effectiveness of risk management processes; and
- the establishment of Information Asset Owners (IAO) responsible for identifying and managing information within each department and addressing information risks as they are identified.

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

- awareness raising through delivery of a training module to key staff, currently being redeveloped with Eliesha, our training provider;
- development of a suite of policy skills and knowledge 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 and ultimately to *One Wales*.

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.

To review the control environment I require each head of department within the Welsh Assembly Government to complete an internal control questionnaire 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 IDEAS project which is a continuous improvement programme aimed at improving financial management across the Welsh Assembly Government, and addressing some of the weaknesses previously identified in its financial and procurement processes and procedures.



## **5. Review of Effectiveness**

As Principal 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 for acting on comments made by the external auditors in their management letter and other reports. I have been advised of the implications of the result of my review of the effectiveness of the system of internal control by the SDPB 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 SDPB.

The opinion of the Head of Internal Audit, set out in his annual assurance report, is that the Welsh Assembly Government has a sound framework of control which provides substantial assurance regarding the effective and efficient achievement of its objectives.

Based on my review of internal controls and all other information available to me I am satisfied, subject to the issues raised in the preceding paragraphs, that the Welsh Assembly Government had in place during the year appropriate controls to support the achievement of its responsibility to secure economy, efficiency and effectiveness in its use of resources.

**Dame Gillian Morgan**

**Permanent Secretary and Principal Accounting Officer**

**26 August 2009**

## **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 2009 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 under the accounting policies set out within them.

### **Respective responsibilities of the Principal Accounting Officer and the Auditor General for Wales**

The Principal 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 there under, and for ensuring the regularity of financial transactions. The Principal 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 on page 5.

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 balances, receipts and payments of the Welsh Ministers' non-domestic rating account, and are properly prepared in accordance with the Local 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 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 Internal Control reflects Welsh Ministers' 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 form an opinion on the effectiveness of Welsh Ministers' 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 Principal Accounting Officer in the preparation of the financial statements and of whether the accounting policies are most appropriate to the circumstances, consistently applied and adequately disclosed.

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 the National Assembly for Wales 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 balances, receipts and payments of the Welsh Ministers non-domestic rating account for the year ended 31 March 2009;
- 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 the HM Treasury; and
- information included in 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 the National Assembly for Wales and the financial transactions conform to the authorities which govern them..

## **Report**

I have no observations to make on these financial statements.

**Jeremy Colman**  
Auditor General for Wales  
26th August 2009

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## NON-DOMESTIC RATING ACCOUNT (WALES)

### Receipts and Payments Account for the Year Ended 31 March 2009

	<b>2008-09</b> £000	<b>2007-08</b> £'000
<b><u>Receipts</u></b>		
Contributions from Local Authorities	812,309	749,216
Contributions from Central List Ratepayers	75,945	72,978
Gross Additional Receipts as a result of final recalculations for 2007-08 and previous years	1,720	1,529
<b>Total Receipts</b>	<b>889,974</b>	<b>823,723</b>
 <b><u>Payments</u></b>		
Sums paid to Local Authorities as the Distributable Amount for 2008-09	868,000	791,000
Sums paid to Local Authorities as a result of the final recalculations for 2007-08 and previous years	19,096	17,516
Sums paid to central list as a result of final recalculations	3,362	11
<b>Total Distributions</b>	<b>890,458</b>	<b>808,527</b>
Surplus/(Deficit) of contributions over amounts distributed for the year	<b>(484)</b>	<b>15,196</b>

The notes on page 14 form part of this account

## Statement of balances

	<b>2008-09</b> £000	<b>2007-08</b> £'000
Balance at 1 April	61,248	46,052
Less (deficit) or plus surplus of contributions over amounts distributed for the year	(484)	15,196
Balance as at 31 March	<u><b>60,764</b></u>	<u><b>61,248</b></u>

Dame Gillian Morgan  
Permanent Secretary and Accounting Officer  
Welsh Assembly Government

26<sup>th</sup> August 2009

## **NON-DOMESTIC RATING ACCOUNT FOR THE YEAR ENDED 31 MARCH 2009**

### **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 £1.720million. Payments made to local authorities totalled £ 19.096 million.
4. The Welsh Ministers paid out the distributable amount of £868 million for 2008-09, (£791 million 2007-2008) as set out in the Local Government Finance Report (Wales) 2008-09. 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 2009, the Central List Receipts Account showed a balance of nil, the total receipts of £75,944,742.10 for the year having been surrendered to the Welsh Consolidated Fund. The Central List Payments account also showed a nil balance, the 2 payments made during the year as a result of re-calculated bills being offset by funding from the Welsh Consolidated Fund.