

2012-2013

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 2012-2013 shows:

- a) sums received by the Welsh Ministers in 2012-2013
 - 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 2012-2013;
 - 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 2011-2012 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 2012-2013
 - 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 2012-2013 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.

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.

2. Related accounts concerned with this expenditure are the consolidated resource account for the Welsh Ministers for the period 1 April 2012 to 31 March 2013.

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 2012-2013 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 (Receipts less cost of Collection)

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 their own calculation if they 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 have 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 2011-2012 and previous years. The adjustments for 2012-2013 will appear in the 2013-2014 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 2012-2013

9. In 2012-13 the Welsh Ministers received just over £1.0 billion of non-domestic rates and paid to authorities £911.0 million. The account for the year shows a surplus of contributions over amounts distributed to billing authorities of £40.0 million.
10. Receipts from central list ratepayers during 2012-13 totalled £73.5 million. £0.6 million was paid back to central list ratepayers during 2012-13 as a result of reductions in rateable value of British Telecommunications plc, and British Waterways Board made by the Valuation Office Agency.
11. The total surplus for the year of £40.0 million has been added to the surplus of £85.4 million brought forward. The surplus carried forward at 31 March 2013 is therefore £125.5 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.

**Derek Jones CB
Permanent Secretary and Principal Accounting Officer
Welsh Assembly Government**

28 August 2013

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 General of the Public Services and Local Government Delivery Directorate as the Additional Accounting Officer for the Directorate. 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.

GOVERNANCE STATEMENT 2012-13

Scope of Responsibility

I became Permanent Secretary and Principal Accounting Officer (PAO) on 8 October 2012 following the departure of Dame Gillian Morgan on 9 July 2012 and the interim appointment of David Richards as PAO in the intervening period. 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 which 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 on-going 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 to manage them efficiently, effectively and economically.

The system of internal control has been in place for the year ended 31 March 2013 and up to the date of approval of these accounts, and accords with HM Treasury guidance.

The Risk and Control Framework

The Non Domestic Rate (NDR) account represents a significant element of Welsh Government funding to local government in Wales so is subject to a number of regulatory and internal control checks.

The estimated collectable amounts for each financial year are set out in the local government 'Green Book' which is subject to Cabinet approval and laid before the Assembly Government. Throughout the financial year the Welsh Government must also set out adjustments to the legislative requirements for the collection of business rates. These adjustments are subject to Ministerial approval and must be laid before Assembly Members.

Other specific controls that apply include:

- The identification of estimated NDR amounts are included as part of the Final Budget motion as a direct charge on the Welsh Consolidated Fund. Although not subject to specific approval by Assembly Members the collectable amounts have material effects on the resources voted to Ministers which are themselves subject to approval.

- The estimates of NDR cash collected for the forthcoming year is approved by HM Treasury as part of the funding arrangements for the Welsh Government. These amounts are included in the Main Parliamentary Estimates laid each year and Supplementary Estimates produced during the financial year.
- Throughout the financial year the amounts of NDR collected by local 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 NDR 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 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 commissioned a review of Corporate Governance effectiveness and will consider its recommendations once the report becomes available.

The Welsh Government has an Internal Audit Service, which operates to standards defined in the Public Sector Internal Audit Standards. They undertake 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 Corporate Governance Committees on progress in implementing the plans. He also prepares an annual independent opinion on the adequacy and effectiveness of the system of internal control. I meet with him through the year to discuss the current activity and specific internal control issues.

Internal Audit Service continues to co-ordinate their work with that of WAO. Co-ordination of audit plans has progressed significantly this year with planned assignments and special investigations being successfully undertaken. An updated joint working protocol underpins the approach taken and quarterly liaison meetings are held to share information and agree joint assignments.

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

Based on its work over this reporting period, in the Chair's Annual Report for 2012-13, the Corporate Governance Committee has 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 NDR account 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.

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, 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 NDR account. However, information security awareness sessions have been provided by the Welsh Government which target business areas that hold sensitive personal data.

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. The Departmental Security Unit has worked with Procurement colleagues to include a new section in tender documents about the controls that need to be in place in third party contracts.

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 IT system and associated security policies comply with the requirements of the standard and are aligned with recommended procedures. The Internal Compliance Programme for 2012-13, conducted by Internal Audit Services, and the external accreditation inspections concluded that the Welsh Government has robust processes in place and has met its commitments under the standard.

Derek Jones CB
Permanent Secretary and Principal Accounting Officer
Welsh Assembly Government
28 August 2013

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 2013 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 there under 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 which 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 2013; 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
6 September 2013

NON-DOMESTIC RATING ACCOUNT (WALES)

Receipts and Payments Account for the Year Ended 31 March 2013

	2012-13 £000	2011-12 £'000
<u>Receipts</u>		
Contributions from Local Authorities	930,022	896,645
Contributions from Central List Ratepayers	73,505	72,524
Gross Additional Receipts as a result of final recalculations for 2011-12 and previous years	445	13,428
Total Receipts	1,003,972	982,597
<u>Payments</u>		
Sums paid to Local Authorities as the Distributable Amount for 2012-13	911,000	787,000
Sums paid to Local Authorities as a result of the final recalculations for 2011-12 and previous years	52,354	55,608
Sums paid to central list as a result of final recalculations	579	885
Total Distributions	963,933	843,493
Surplus of contributions over amounts distributed for the year	40,039	139,104

The notes below form part of this account

Statement of balances

	2012-13 £000	2011-12 £'000
Balance at 1 April	85,433	(53,671)
Plus surplus of contributions over amounts distributed for the year	40,039	139,104
Balance as at 31 March	<u>125,472</u>	<u>85,433</u>

Derek Jones CB
Permanent Secretary and Principal Accounting Officer
Welsh Assembly Government

28 August 2013

NON-DOMESTIC RATING ACCOUNT FOR THE YEAR ENDED 31 MARCH 2013

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 £0.445 million. Payments made to local authorities totalled £52.354 million.
4. The Welsh Ministers paid out the distributable amount of £911 million for 2012-13, (£787 million 2011-2012) as set out in the Local Government Finance Report (Wales) 2012-13. 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 2013, the Central List Receipts Account showed a balance of nil, the total receipts of £73,505,189 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.