

Non-Domestic Rating Account (Wales)

Receipts and Payments Account 1 April 2017 to 31 March 2018

Local Government Finance Act 1988

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

Non-Domestic Rating Account (Wales)

Receipts and Payments Account 1 April 2017 to 31 March 2018

| Contents | Page |
|---|-------------|
| Foreword | |
| Statutory Background Review of 2017-18 | 1-3 |
| Statement of Principal Accounting Officer's Responsibilities with Respect to the Account | 4 |
| Governance Statement | 5-8 |
| The Certificate and Report of the Auditor General for Wales to the National Assembly for Wales | 9-11 |
| Receipts and Payments Account for the Year ended 31 March 2018 | 12-13 |
| Notes to the Account | 14 |

**NON-DOMESTIC RATING ACCOUNT (WALES)
RECEIPTS AND PAYMENTS ACCOUNT 2017-18**

LOCAL GOVERNMENT FINANCE ACT 1988

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

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

FOREWORD

STATUTORY BACKGROUND

1. The account for 2017-18 shows:

- a. sums received by the Welsh Ministers in 2017-18
 - 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 2017-18;
 - 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 2016-17 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 2017-18
 - 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 2016-17 and previous years, and to ratepayers on the central rating list following recalculations of the amounts due; and
 - ii. under paragraph 12 in respect of non-domestic rates distributed to Receiving Authorities in proportion to resident adult population.

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

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

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

2. Related accounts concerned with this expenditure are the Welsh Government Consolidated Annual Accounts for the Welsh Ministers for the period 1 April 2017 to 31 March 2018.

Pooling and Redistribution of Non-Domestic Rates

3. The Welsh Ministers receive non-domestic rates collected from ratepayers by Billing Authorities or paid directly to the Welsh Ministers by ratepayers on the central rating list. The Welsh Ministers are required to distribute the contributions to Receiving Authorities in proportion to the resident adult population (aged 18 or over) in each administrative area (Local Government Finance Reports 2017-18, No's 1 and 2, Section 4.1). All 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 the distribution of non-domestic rates are to be charged on the Welsh Consolidated Fund. Welsh Ministers' receipts of non-domestic rates are to be surrendered to the Welsh Consolidated Fund (section 120 of the Government of Wales Act 2006). However, in order to avoid unnecessary cash transfers between the Welsh Government and Billing Authorities, only net payments are made. The account shows as items of account all the non-domestic rates entitlements and liabilities which have been discharged and not just the net cash sums received or paid out.

Receipts from Billing Authorities (receipts less costs of collection)

5. A Billing Authority's contribution into the non-domestic rates 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 a Billing Authority's calculation was unlikely to have been made in accordance with regulations (made under paragraph 4). A Billing Authority may recalculate its provisional contribution during the year if the amount payable by ratepayers falls below the level of the prescribed threshold. The Welsh Ministers have then to adjust the Billing Authority's payments accordingly.

Prior Year Adjustments

6. After the end of the year, each Billing Authority has to calculate its actual contribution, arrange for it to be audited and send a copy of the unaudited claim form to the Welsh Ministers. The appointed auditor then undertakes the audit and forwards the original claim, certified and audited to the Welsh Ministers. On receipt of the audited claim, any necessary adjustments are made to the Billing Authority's payments to accord with the calculation, either by refunding any sum overpaid or requiring additional payments from the authority as appropriate. The prior years' adjustments shown in this account relate to 2016-17 and previous years. The adjustments for 2017-18 will appear in the 2018-19 non-domestic rating account.

7. Any subsequent changes to the amount payable to the Billing Authority in the relevant financial year (which might occur for example because of appeals which may retrospectively alter rateable values) are treated as prior year adjustments to the pool contribution for a subsequent year.

Distribution of the Pool

8. An amount equivalent to the Welsh Ministers' estimate of the yield of non-domestic rates is distributed to Receiving Authorities each year. The sum to be distributed is calculated by the Welsh Ministers before the beginning of the financial year using estimates of the items to be credited and debited to the account in the year. This is the distributable amount. It is unlikely 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 2017-18

9. In 2017-18, the Welsh Ministers received £1,060 million of non-domestic rates and paid £1,105 million to Receiving Authorities. The account for the year shows a deficit of contributions over amounts distributed of £44.5 million.
10. Receipts from central list ratepayers during 2017-18 totalled £98.3 million. £2.7 million was paid back to central list ratepayers during 2017-18 as a result of the reductions made by the Valuation Office Agency to the rateable values for United Utilities Water Ltd and British Telecommunications plc.
11. The surplus of £51 million brought forward from 2016-17 has been offset against the total deficit of £44.5 million for 2017-18. The surplus carried forward at 31 March 2018 is therefore £6.5 million. The surplus or deficit at the end of each year is taken into account in the calculations for the following year so that, over time, all the sums paid into the non-domestic rates pool are redistributed to Receiving Authorities.

Auditors

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

Shan Morgan
Permanent Secretary and Principal Accounting Officer
Welsh Government

17 September 2018

STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES WITH RESPECT TO THE ACCOUNT

13. Section 129(6) of the Government of Wales Act 2006 has designated the Permanent Secretary as Principal Accounting Officer for the Welsh Ministers. The Principal Accounting Officer is responsible for the overall organisation, management and staffing of the Welsh Government. This includes responsibility for Welsh Government-wide systems in finance and other matters, where these are appropriate, and for the management of the Welsh Ministers' net cash requirement.
14. 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 HM Treasury. Responsibility for preparing and signing the account rests with the Principal Accounting Officer. The account is required to properly present the receipts and payments for the financial year and the balance held at year end.
15. Under Section 133 of the Government of Wales Act 2006, the Principal Accounting Officer may designate other members of the Welsh Ministers' staff as Additional Accounting Officers. Up to 29 September 2017 the Principal Accounting Officer designated the Deputy Permanent Secretary for Education and Public Services and the Director for Local Government as the Additional Accounting Officers with responsibility for the non-domestic rating account. Following the departure of the Deputy Permanent Secretary, the responsibility rested with the Director for Local Government until the arrival of the new Director General for Education and Public Services, who was designated as Additional Accounting Officer from 12 January 2018. These designations do not detract from the Permanent Secretary's overall responsibility regarding the non-domestic rating account as Principal Accounting Officer.
16. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records, for safeguarding the Welsh Government's assets, and for taking reasonable steps to prevent and detect fraud and other irregularities, are set out in the Accounting Officers' Memorandum issued by the Principal Accounting Officer based on the guidance produced by HM Treasury.
17. The relationship between the Principal Accounting Officer and the Additional Accounting Officers, as described in paragraph 15 above, and their respective responsibilities are set out in a written agreement between the officials concerned.

GOVERNANCE STATEMENT 2017-18

Scope of Responsibility

18. As Principal Accounting Officer, I am responsible for ensuring 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 which supports the achievement of the Welsh Government's policies, aims and objectives, facilitates the effective exercise of the Welsh Ministers' functions, and includes effective arrangements for the management of risk.
19. The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can, therefore, only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Welsh Government's policies, aims and objectives, to evaluate the likelihood and impact of those risks being realised and the processes to manage them efficiently, effectively and economically.
20. The system of internal control was in place for the year ended 31 March 2018 and up to the date of approval of these accounts, and accorded with HM Treasury guidance.

Financial Devolution of Non-Domestic Rates and Ministerial Responsibilities

21. The financial devolution of non-domestic rates to the Welsh Ministers occurred on 1 April 2015. The revenue from non-domestic rates available to the Welsh Government is now more directly linked to the performance of the Welsh economy. From 1 April 2015, non-domestic rates became Annually Managed Expenditure (AME) in the Welsh Budget (with a consequent reduction to the Departmental Expenditure Limit (DEL)).
22. Following the Assembly elections in May 2016, responsibility for non-domestic rates was consolidated within the Welsh Government and assigned to the then Cabinet Secretary for Finance and Local Government who, from 3 November 2017, became the Cabinet Secretary for Finance. His responsibilities include rates policy and the management of the non-domestic rates budget and pool. This arrangement reduces the risk of decisions taken in one part of the Welsh Government having financial implications for another part, given the relevance of non-domestic rates policy for a number of portfolios.

The Risk and Control Framework

23. The non-domestic rating account is used to manage a significant component of the Welsh Government funding provided to local government in Wales and, in addition to the audit of this Account by the Auditor General for Wales, is subject to a number of regulatory and internal control checks.
24. The distributable amounts of non-domestic rates for each financial year are based on estimates of the amount which will be collected and are set out in

the annual Local Government Finance Reports. The reports are subject to Ministerial approval and are laid before the National Assembly for Wales. Throughout the financial year, the Welsh Government must also set out adjustments to the legislative requirements for the collection of non-domestic rates. These adjustments are subject to Ministerial approval and must be laid before the Assembly.

25. Other specific controls which apply include:

- The distributable amounts of non-domestic rates are included as part of the Final Budget motion as a direct charge on the Welsh Consolidated Fund. The amounts represent a material contribution to the overall financing of the Welsh Budget and, as such, are an integral part of the plans which are subject to approval by the National Assembly.
- The estimates of non-domestic rates to be distributed for the forthcoming year and forecasts for future years are provided, together with explanatory notes on sources and methodology, to the Office for Budget Responsibility for consideration and inclusion in its forecasts of UK public finances.
- Throughout the financial year, the amounts of non-domestic rates collected by Billing Authorities are reported to the Welsh Government via formal submissions. These submissions, specifically the NDR3 forms, are subject to checks undertaken by external auditors.
- Income and Expenditure relating to non-domestic rates is monitored throughout the financial year as part of the month-end financial monitoring procedures employed by the Welsh Government.

Effectiveness of Internal Control

26. As Principal Accounting Officer, I am responsible for the effectiveness of the system of internal control. I take assurance from a wide spectrum of activities and am informed by the work of the internal auditors and also of the executive managers within the Welsh Government who have responsibility for the development and maintenance of the internal control framework, and for acting on comments made by the Auditor General for Wales in his management letter and other reports. I have been advised on matters of risk and assurance by the Board and the Audit and Risk Committee.

27. The Welsh Government has an Internal Audit Service which operates to standards defined in the Public Sector Internal Audit Standards. It undertakes a programme of audit work based upon an analysis of the major risks facing the organisation as a whole. For the year covered by this Governance Statement, no pieces of audit work undertaken were specific to non-domestic rates but the processes and procedures in this area exist in a control environment which has been subject to internal audit and which has been judged to be effective.

28. The Head of Internal Audit submits regular reports to the Welsh Government Audit and Risk Committee on progress in implementing her annual audit plan.

There is also a separate Education and Public Services Audit and Risk Committee in place which feeds assurances to the main Audit and Risk Committee. The Internal Audit Service also prepares an annual independent opinion on the adequacy and effectiveness of the system of internal control. I regularly meet members of the service to discuss the current activity and specific internal control issues.

29. Throughout the year, the Internal Audit Service continued to coordinate its work with that of the Wales Audit Office. A joint working protocol underpins the approach taken by all parties and liaison meetings are held to share information.
30. For the 2017-18 financial year, the Director General for Education and Public Services had lead Additional Accounting Officer responsibility for the management of the non-domestic rates budget and pool, including the preparation of this Account.
31. The opinion of the Head of Internal Audit, set out in her annual assurance report, is that, overall, the Welsh Government can take reasonable assurance that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively.
32. Drawing on the work of the Audit and Risk Committee, over the year, the Chair's Annual Report for 2017-18 provided overall reasonable assurance on the adequacy of audit arrangements for the Welsh Government and also on the arrangements for governance, risk management and internal control for the Welsh Government, based on the range of assurances presented to the Committee and the information provided to it by Officials.
33. Based on my review of internal controls and all other information available to me, I am satisfied that the non-domestic rating controls in place during the year were appropriate.

Information Governance

34. As Principal Accounting Officer, I am responsible for ensuring appropriate arrangements are in place to comply with the core set of mandatory minimum measures to protect information in Government Departments and Devolved Administrations. These require me to assess our risk and ensure appropriate mitigation strategies are in place.
35. Information risk management continues to have a high priority throughout the Welsh Government, featuring in departmental risk registers. There were no instances of reported information losses which specifically relate to the non-domestic rating account.
36. Where third parties handle our information, it is vital we tell them how to do so as we often retain legal liability for that information even if it is the third party which releases the information in error. Information assurance clauses which

clearly specify how Welsh Government information must be handled are included as a standard requirement in contracts.

37. Information risk management continues to be supported by the Welsh Government's compliance with ISO 27001 – the international standard for information security management. This provides assurances the corporate ICT systems and associated security policies comply with the requirements of the standard and are aligned with recommended procedures.

Shan Morgan
Permanent Secretary and Principal Accounting Officer
Welsh Government

17 September 2018

The Certificate and independent auditor's report of the Auditor General for Wales to the National Assembly for Wales

Report on the audit of the financial statements

Opinion

I certify that I have audited the financial statements for the Non-Domestic Rating Accounts (Wales) of Welsh Ministers for the year ended 31 March 2018 under the Local Government Finance Act 1988. These comprise the Receipts and Payments Account, Statement of Balances and the related notes, including a summary of significant accounting policies. These financial statements have been prepared on a cash basis under Schedule 8 to the Local Government Finance Act 1988 and directions made thereunder by HM Treasury.

In my opinion the financial statements:

- Properly present the balances, receipts and payments of the Non-Domestic Rating Account (Wales) for the year ended 31 March 2018; and
- have been properly prepared in accordance with Schedule 8 to the Local Government Finance Act 1988 and directions made thereunder by HM Treasury.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the body in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other information

The Principal Accounting Officer is responsible for the other information in the account. The other information comprises the information included in the account other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my report, I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on regularity

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

Report on other requirements

Opinion on other matters

In my opinion, based on the work undertaken in the course of my audit:

- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements and the Foreword has been prepared in accordance with directions issued by HM Treasury.

Matters on which I report by exception

In the light of the knowledge and understanding of the body and its environment obtained in the course of the audit, I have not identified material misstatements in the Foreword or the Governance Statement.

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept;
- the financial statements are not in agreement with the accounting records and returns; or
- 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.

Responsibilities

Responsibilities of the Principal Accounting Officer for the financial statements

As explained more fully in the Statement of 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 such internal control as the Principal Accounting Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Responsibilities for regularity

The Principal Accounting Officer is responsible for ensuring the regularity of financial transactions.

I am responsible for expressing an opinion on whether 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.

Adrian Crompton
Auditor General for Wales
28 September 2018

24 Cathedral Road
Cardiff
CF11 9LJ

NON-DOMESTIC RATING ACCOUNT (WALES)

Receipts and Payments Account for the Year ended 31 March 2018

| | Note | 2017-18 £000 | 2016-17 £000 |
|---|------|------------------|------------------|
| Receipts | | | |
| Contributions from Local Authorities | 2 | 961,043 | 982,962 |
| Contributions from Central List Ratepayers | 7 | 98,287 | 79,235 |
| Gross Additional Receipts as a result of final recalculations for 2016-17 and previous years | 4 | 837 | 3,550 |
| Total Receipts | | 1,060,167 | 1,065,747 |
| Payments | | | |
| Sums paid to Receiving Authorities as the Distributable Amounts | 5 | 1,059,000 | 977,000 |
| Sums paid to Billing Authorities as a result of the final recalculations for 2016-17 and previous years | 4 | 42,920 | 31,098 |
| Sums paid to Central List Ratepayers as a result of final recalculations | | 2,700 | 197 |
| Total Distributions | | 1,104,620 | 1,008,295 |
| Deficit of contributions over amounts distributed for the year | | (44,453) | 57,452 |

Statement of Balances

| | | 2017-18 £000 | 2016-17 £000 |
|---|---|-----------------|-----------------|
| Balance at 1 April | | 50,952 | (6,500) |
| Less deficit of contributions over amounts distributed for the year | | (44,453) | 57,452 |
| Balance at 31 March | 8 | 6,499 | 50,952 |

Shan Morgan
Permanent Secretary and Principal Accounting Officer
Welsh Government

17 September 2018

The following notes form part of this Account.

NOTES TO THE ACCOUNTS

- 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 (Wales), 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 end of the year.
- 2 Billing Authorities are required to calculate their non-domestic rates contribution for the year before it begins on the basis of certain prescribed assumptions (the provisional amount: paragraph 5(2) and to make their contribution in regular instalments during the year (paragraph 5(5)). The contributions calculated by Billing Authorities for 2017-18 totalled £961 million.
- 3 After the year end, the contribution is recalculated on the basis of outturn information (paragraph 5(6)) and adjustment payments made to or by Billing Authorities as appropriate.
- 4 The outturn adjustments made comprised receipts from Billing Authorities of £0.837 million and payments made to Billing Authorities of £42.8 million.
- 5 The Welsh Ministers paid out the distributable amount of £1,059 million for 2017-18, as set out in the Local Government Finance Reports for 2017-18. The distributable amount was paid to Receiving Authorities in proportion to their resident adult populations.
- 6 Whilst the account shows the full amount of contributions from Billing Authorities and the distributable amount, in practice these items are netted off against each other and only net payments are made. This avoids unnecessary cash transfers between the Welsh Ministers and Billing Authorities.
- 7 As at 31 March 2018, the Central List Receipts Account showed a balance of nil, the total receipts of £98.3 million for the year having been surrendered to the Welsh Consolidated Fund. The Central List Payments Account also showed a nil balance, the two payments made during the year as a result of recalculated bills being offset by funding from the Welsh Consolidated Fund.
- 8 Surpluses at the end of the year are carried forward by debiting the account for the year and crediting the following year's account. Deficits at the end of the year are carried forward to the following year by crediting the current year's account and debiting the following year's. This is to ensure that, when years are taken together, all non-domestic rates paid to the pool are equivalent to the sums distributed to Receiving Authorities.